

## American May Be Released

**Beirut Statement Says Hostage Will Be Freed Tuesday**

Compiled by Our Staff From Dispatches  
BEIRUT — Kidnappers announced in Beirut on Sunday that an American hostage, Frank Herri Reed, would be freed by Tuesday.

"We have decided to release American hostage Frank Reed within 48 hours, carrying a message addressed to the American administration," the kidnappers said in a unsigned typewritten statement in Arabic delivered to the press on Sunday night.

A group calling itself the Organization of the Islamic Dawn later said it was freeing Mr. Reed.

The announcement of Mr. Reed's imminent release, accompanied by two photographs of him, allowed the freeing in Lebanon a case of an American hostage, after 39 months in the hands of a pro-Iranian group, Islamic Jihad for the Liberation of Palestine.

Mr. Reed was the first American hostage released in Lebanon since 1986. Mr. Reed, 57, director of the Lebanese International school, was abducted on Sept. 9, 1986.

In Washington, President George Bush had no comment on a report from Beirut.

"I've learned not to speculate on the hostages for the reasons I keep explaining," Mr. Bush said. "I just don't say anything."

In Malden, Massachusetts, Robert Langston, Mr. Reed's brother-in-law said, "We'll see. Basically a few times they've done this. I think it's been so long, it's happened so often, we'll see."

In one of the photographs accompanying the announcement on Reed, sent to a Beirut newspaper, An Nahar, and to an international news agency, he was wearing a blue shirt and was wearing a blue shirt. In the other, Mr. Reed appeared tired and haggard.

A group calling itself the Lebanese Arab Revolutionary Cells said in 1986 it had abducted Mr. Reed.

Mr. Reed's wife, Fifi, a Lebanese, and their 9-year-old son, Irak, have been living in Massachusetts since he was seized.

(Reuters, AP)

## Kiosk

### 6 Die as Ferry Sinks Off Sicily

TRAPANI, Sicily (AP) — A car ferry carrying 52 passengers and crew members sank off the Sicilian coast on Sunday, leaving six people dead and seven missing. All were Italians.

The 3,500-ton ferry Trapani Express sank at 5 P.M. about a mile from this port city on Sicily's west coast. The ferry left Saturday evening from the Tuscan port of Livorno. The ferry carried 34 passengers and 18 crew members.

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Lithuanian families riding bicycles through central Vilnius on Sunday in a defiant gesture toward Moscow, which has imposed energy sanctions on the republic.

## After Dublin, a Sudden Push for EC Innovation

By Joseph Fitchett

International Herald Tribune

DUBLIN — European Community leaders, emboldened in their efforts to cope with the political revolution in Eastern Europe, are suddenly on the move in seeking new security arrangements for Europe and a more cohesive Community.

This new readiness to envisage innovative designs in the post-Cold War Europe emerged Saturday at the one-day EC summit meeting in Dublin, which disclosed converging views among the United States and EC governments about Europe and an ambitious joint agenda in coming months.

The key to this reviving self-confidence among Europeans, several summit participants said, is the growing conviction that German reunification will strengthen the Community, not dislocate it. The Dublin meeting, a diplomat said, marked "a triumph of the West German position, which helped produce a fait accompli and then persuaded some dubious neighbors to like it."

Grudgingly, optimism about reunification has replaced the misgiv-

ings that dominated a previous EC special summit meeting on the two Germanys in Paris in November. At that time, other EC governments, appearing stunned by the implications of the fall of the Berlin Wall, sought to slow down reunification.

Now EC leaders have reached the same policy conclusions as the Bush administration in wanting to see reunification happen fast to help stabilize Eastern Europe.

"The sooner we eliminate the anomaly of two Germanys being run from Bonn, the less economic risk for the EC and the less security risk for NATO," one foreign minister said privately.

On this upbeat note about a new Germany, the EC leaders set in motion a set of initiatives:

• The EC Commission, to ensure that German reunification proceeds smoothly for the rest of the Community, will be "fully informed" of discussions and arrangements between the two Germanys. The commission will seek to prevent German monopolies taking shape in East Germany and to promote other EC countries' role there.

• The Community will pursue closer political and possibly even security cooperation that goes beyond the economic integration and diplomatic coordination among the Common Market countries. Despite Britain's objections to any substantial loss of national sovereignty in these domains, EC leaders seem set to start negotiating on

EC leaders say unification will be a locomotive for growth. Page 11.

these issues later this year in hopes of forging new institutions by 1993.

• NATO will be "maintained" as the security framework for its members, including a united Germany. Although the alliance seldom comes up at EC summit meetings, British and French officials publicly underscored NATO's continuing role in guaranteeing Europe's security. While seeking a stronger voice in it, European leaders have concluded that NATO is needed to balance Soviet power and forestall any need for West Germany to seek nuclear weapons, a summit participant said.

• To reassure the Soviet leadership about Western interest in find-

ing a pan-European forum for discussions on mutual security, the Community proposed that preparatory work start in July for a summit meeting this year of the Conference on Security and Cooperation in Europe. In effect, the Community said that it wanted the 35-nation conference to start discussing new security arrangements in Europe this year, as the Soviet Union has proposed, despite the signs of a tougher Soviet line in the Vienna talks on cutting conventional forces in Europe.

In the view of most Western leaders, a summit participant said, Mikhail S. Gorbachev's recent harsher tone on German reunification, Lithuania and arms control is a tactical maneuver aimed at getting conservatives' support at a crucial congress of the Soviet Communist Party in early July.

By that time, the official said, "we will have a NATO summit, where we expect proposals from the Bush administration about how to adjust the alliance militarily and politically" to new conditions in Europe.

There are tentative Western plans to offer Moscow reassuring

measures — for example, a nonaggression pact to be proposed at the security conference summit meeting.

But if Mr. Gorbachev pursues his newly conservative line after the party congress, the summit participant said, "we will have to rethink a lot of our current thinking."

If European leaders feel that they have wrested the initiative from Mr. Gorbachev, it is partly because they feel less overwhelmed by German reunification, whose potential impact jaunted EC leaders' views about the whole process of change in Eastern Europe.

Although offering no figure for possible costs to the Community of absorbing East Germany, the commission predicted that reunification would raise growth by 1 percent in West Germany and one-half of 1 percent in other EC countries.

EC leaders were reminded by Mr. Kohl that they were not being asked to pay, that "the Germans do not intend to stick their hand into the EC wallet." The Community will extend only minimal trans-

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## A New Mood Of Compromise Over Lithuania

Compiled by Our Staff From Dispatches

MOSCOW — Lithuania and Moscow headed toward compromise Sunday over the republic's declaration of independence, and the Kremlin appeared poised to resume natural gas supplies to a big chemical plant there.

Prospects for a breakthrough in the seven-week impasse emerged after the Kremlin said it would agree to Lithuania's freezing its March 11 declaration of independence instead of rescinding it.

The new mood of compromise was reinforced by reports that the Soviet prime minister, Nikolai I. Ryzhkov, had ordered a sharp increase in natural gas supplies to the Azot chemical plant in Janava, 90 kilometers (55 miles) northwest of Vilnius.

The plant production manager, Vladislav Gedvidas, said Sunday that Mr. Ryzhkov had approved deliveries of 3 million cubic meters of natural gas a day, six times what the Kremlin has been supplying since April 19, when economic sanctions went into effect.

So far, Mr. Gedvidas said, there has been no increase.

"I have tried to find out about the promise yesterday and today, but there is no result so far," he said.

There was no official announcement by Moscow of a change of policy.

The plant produces specialty glues and fertilizers, some of them for export to foreign markets for hard currency.

The apparent shift away from confrontation came after Moscow toughened economic sanctions on Friday by cutting off coal shipments. Lithuania announced limited food rationing beginning Tuesday and said some publications would be suspended because supplies of newsprint and other printing material were dwindling.

But the mood in the republic remained defiant, and Lithuanian officials insisted that there was no turning back on the declaration itself. About 2,000 cyclists rallied in Vilnius to show their resolve in the face of the Kremlin's blockade of energy supplies, which has left motorists stranded and forced layoffs at many factories.

Vytautas Landsbergis, the Lithuanian president, welcomed a proposal to freeze the declaration, an idea presented by France and West Germany last week.

"The suggestion to suspend the enforcement of the decision on independence of March 11 is con-

structive and worthy of careful consideration," he said on Radio Vilnius.

A spokesman for President Mikhail S. Gorbachev, Arkadi Maslennikov, emphasized that the Soviet president was not now insisting that Lithuania rescind the declaration as it has previously.

The French-West German effort, in the form of a letter to Mr. Landsbergis, has clearly made the situation more fluid, although the sides remain far apart, with both the Soviet Union and Lithuania demanding sovereignty under their

The French-German initiative on Lithuania had the private backing of President Bush. Page 3.

clashing constitutions. But the principals appear to be searching harder for middle ground.

"They should not insist on implementation," Mr. Maslennikov said of the Lithuanian leaders. "They can find some way of phrasing, of putting on a moratorium."

The Kremlin spoke in virtual parallel with the proposal of Chancellor Helmut Kohl of West Germany and President Francois Mitterrand of France that Lithuania temporarily suspend the enforcement of the declaration to prompt serious negotiations with Moscow.

"If they see in that letter a kind of face-saving device, let them," Mr. Maslennikov said at a new conference. "We are not very keen on appearing victorious. We are for the essence of the process."

While insisting that the Soviet Constitution is the only basis for an eventual solution to the Lithuanian question, the spokesman gave no immediate indication of how the Kremlin would react should Lithuania adopt the moratorium.

Mr. Landsbergis still insisted Saturday that "we cannot restrict our constitution even temporarily," but he quickly spoke of a "temporary confederative link" or other relationship with Moscow during a transition to independence.

Mr. Gorbachev, who has been insisting that Lithuania must eventually observe the Soviet Constitution and return to the fold, took the last two weeks ago of making the secondary to dealing with the simpler issue of three Lithuanian laws passed after the declaration. They would exempt Lithuanians from Soviet conscription, introduce identity cards and take over property claimed by the small, pro-Moscow Communist Party.

(Reuters, NYT)

## U.S.-Israel Ties: A Time of Ill Will

By Glenn Frankel

Washington Post Service

JERUSALEM — After the collapse of Shimon Peres's attempt to forge a new government, relations between the United States and Israel are at their lowest since the fractious days of Menachem Begin's prime ministership in the early 1980s.

Washington and Jerusalem are in conflict on many difficult issues and are expressing their differences in tougher, more uncompromising language, according to officials and analysts on both sides.

They disagree over Jewish settlement in the occupied territories, the status of Jerusalem and the role of the Palestine Liberation Organization in the peace process.

The conflicts have existed for years but were played down during the Reagan administration, which constructed a reservoir of trust and goodwill between Washington and Jerusalem.

Now the reservoir has been drained and suspicion reigns. The acting prime minister, Yitzhak Shamir, and many of his supporters believe that members of the Bush administration actively sought to undermine his government to see him replaced by Mr. Peres.

U.S. officials, who deny that accusation, believe Mr. Shamir misled them by putting forward a peace proposal he never intended to carry out.

The suspicions have been compounded by stylistic differences. Mr. Shamir is uncomfortable with the U.S. administration's pen-

## NEWS ANALYSIS

chant for telephone diplomacy. President George Bush and Secretary of State James A. Baker 3d are unwilling to put their personal prestige on the line by shuttling between Mideast capitals.

The two sides increasingly communicate through harsh public statements. Last week, there was an angry exchange of criticism over the government-funded occupation of church-owned property in the Christian Quarter of Jerusalem's Old City by Jewish settlers.

"We feel we are being narrowed into a corner," said a senior Israeli official. He complained that "every day we get another blast" from the State Department or White House spokesman.

The Bush administration has been careful not to take sides publicly. See ISRAEL, Page 5



## In a Swiss Area, Men Once More Deny Women the Right to Vote

Men in Appenzell, Switzerland's last bastion of male supremacy, overwhelmingly voting on Sunday for the third time in two decades to continue to deny women a voice in local affairs. The all-male legislative assembly of the half-canton of Appenzell-Aargau rejected a government-proposed constitutional amendment that would have introduced full suffrage for women. A final decision on the issue is expected to be made by the Federal Tribunal, Switzerland's supreme court.

## Japan Again Runs Up the Flag, but Not Everybody Is Saluting

By Steven R. Weisman

New York Times Service

TOKYO — Graduation ceremonies at an elementary school were delayed the other day when a father ripped down the Japanese flag and hid it inside his clothes. Many other schools throughout the country refused to display the flag in the first place.

The protests arose when the government required that the national flag, featuring a red sun on a white field, be displayed at all such ceremonies and that the national anthem be sung in praise of the emperor.

Opinion surveys show that most Japanese favor displaying the flag and singing the anthem at official functions, but that they dislike coercion. Thus, many are watching to see whether the government will punish the principals, teachers and students who recently defied its directive.

The Asahi newspaper, for example, expressed "our sense of misgiving and concern over schools being used as a loyalty test of sorts" and urged government authorities "to take a second look at the fact that a large number of Japanese are indeed worried" about the issue.

On the surface, the issue may resemble the sharp disagreements in the United States over requirements to recite the Pledge of Allegiance and the Supreme Court's ban on prohibitions against desecration of the flag.

But the debate in Japan runs far deeper. Because both the flag and the anthem accompanied the brutal militarism of the first half of this century, some feel that reviving them as symbols would be a mistake.

Many objections center on the anthem, known as "Kimigayo," which extols the reign of the Japanese

emperor, in whose name Japanese troops marched across Asia.

Both the flag and the anthem were banned by General Douglas A. MacArthur, supreme commander and administrator of Japan after the war. They have never been officially reinstated but have come to be adopted as state symbols.

In recent years, Japanese leaders have expressed alarm at what they feel has been a deterioration of traditional values and lack of appreciation of Japanese heritage among children.

Accordingly, two years ago, the Education Ministry and the governing Liberal Democratic Party endorsed major changes in school curriculums, including restoration of the reputation of historical figures regarded by many in Japan, and by other Asian countries, as oppressors.

The ministry has designated the flag and anthem as national symbols since 1977, but no law to this effect has ever been enacted by the Diet, or parliament.

Officially, the ministry's directive on the flag and anthem is to be phased in over the next three years. But the ministry informed schools that it "would be desirable" to start at the beginning of this month, hinting at punitive action if schools failed to heed the advice.

News organizations found that most schools heeded the warning. The Education Ministry, at the same time, was reportedly not prepared to engage in widespread arrests or censuring of those school authorities that ignored it.

The ministry recently announced that it would conduct a nationwide survey and make the results known in the summer.

## De Maiziére Fails to Sway Gorbachev

By Francis X. Clines

New York Times Service

MOSCOW — East Germany's prime minister called Sunday for changes in the "structure and strategy" of the North Atlantic Treaty Organization, as President Mikhail S. Gorbachev reiterated the Soviet Union's opposition to a reunited Germany belonging to NATO.

In his first Kremlin visit since taking office two weeks ago, Prime Minister Lothar de Maiziére said that he and Mr. Gorbachev had "differences of opinion" about potential NATO membership for a reunited Germany.

But Mr. de Maiziére expressed optimism that progress on the issue

As Germans look to NATO, the Soviet Union again urges an end to Europe's alliances. Page 5.

might be possible at coming negotiations on German unification involving the foreign ministers of the two Germanys and those of the four victorious wartime allies: the United States, the Soviet Union, Britain and France.

After Mr. de Maiziére departed following his daylong visit, Mr. Gorbachev was quoted by national television as saying that "the Soviet Union's attitude toward unilateral, unbalanced proposals of the entry of a future German state into NATO remains negative."

However, the Kremlin already has indicated some flexibility on the unification issue. In a White House visit earlier this month, the Soviet foreign minister, Eduard A. Shevardnadze, signaled that Moscow was prepared to drop its demand that a unified Germany be neutral.

Mr. Shevardnadze confirmed this in an interview Saturday with the Irish Times. He spoke instead in the interview of the possibility of a nonaligned status for Germany.

Mr. Shevardnadze said on April 6 that Moscow was open to any number of proposed pan-European security structures, and even to the

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# Denmark Backs Strengthening of EC Integration

Uffe Ellemann-Jensen, the Danish foreign minister, discussed the European Community summit meeting in Dublin over the weekend with Barry James of the International Herald Tribune.

Q. Some reports have suggested that Denmark, like Britain, was lukewarm to the proposal of President Mitterrand and Chancellor Kohl for greater political union.

A. I have seen those reports and they are simply not true. Of course we need to find out what they mean by their proposal, and that is exactly what they asked the Community to try to do. There should certainly be no misunderstanding that we support a strengthening of the Community structures. We believe that, hand in hand with German unification and with the new openness towards the rest of Europe, we need to strengthen the integration of the Community. We made that absolutely clear. This is actually a new and much more positive point of view from the Danes than you have seen before.

Q. The British prime minister warned about loss of sovereignty. Is this a view with which your government identifies?

A. If political union means that we should have one common parliament, one common sovereign, one common foreign policy in all matters — well, we would not like that picture, nor would anyone else. But that is not what we are talking about. Political union is a sort of headline both to

convince Europeans that we need to strengthen our structures in order to meet the challenges, and to present Europe in a stronger and more convincing way to the outside world.

Q. Well, I don't suppose the French and the Germans want to give up their historic national institutions. Have their motives been misrepresented as well?

A. Goodness yes. It would be much better to try to find what is uniting us in this debate. In Denmark, where you used to

## MONDAY Q&A

find footdragging, we have certainly got the message, from what has happened in Eastern and Central Europe and the prospect of German unification, that the answer is to strengthen European institutions and cooperation.

Q. Is your government satisfied about the degree of democratic control within the EC, which seems to be one of the key aspects of political union?

A. No. Under the headline of political union there are a number of ways in which we would like to see the Community strengthened. One is the democratic control of the Community — and to that you should add openness in decision-taking. We have some traditions for openness in the public sector that we would like to see introduced in the Community in order to strengthen its democratic structure. At the same time we would like to

strengthen the decision-taking process by enlarging the areas in which majority decisions can be taken, for instance, the environmental area. And we would like to see the Community have a stronger policy of openness towards the rest of Europe. We want to see the Community open itself up to new members when they are ready to apply — first the countries of the European Free Trade Association and, as soon as it can become practically possible, new democracies such as Czechoslovakia and Hungary.

Q. All of which requires much more cohesion in the Community?

A. Oh yes, but it will come, I am sure. We can do it because the EC is in historical terms a unique institution built upon a set of rules that applies equally to everyone. That is why we, a small country, put a lot of emphasis on using the EC as the motor of European development.

Q. You as foreign ministers will now study the proposal for political union and report back to the next EC summit in June. Is there a danger of procrastination here?

A. No. This is what the two gentlemen behind the proposal had asked for. They got what they wanted, and the council was positive in supporting the concept of political union. Now we have to put some meaning behind the words. But the important thing is that the Dublin meeting went well. There were no raised voices, no sarcasm, no blockades. Behind the whole discussion

was the belief that the right answer to a united Germany, the right answer to the aspirations of Eastern and Central Europe is a strengthening of our cooperation. So I would say the meeting was a success.

Q. Many feel that President Mitterrand and Chancellor Kohl were sending an important message that they are not going to allow European unity to become bogged down over the question of German unity. Was this view generally accepted at the Dublin meeting?

A. Certainly yes. I see two important messages in their letter. One is an underlining of the fact that German unity is going to take place in a European context and the other is that we want to send a stronger message to the outside world. I think the French position is interesting. In 1987, when Denmark had the EEC presidency, we introduced what has since become a tradition, that is an annual meeting between the 12 EC foreign ministers and the U.S. secretary of state during the September opening of the UN General Assembly. This was originally over the objection of the French, who warned against allowing an elephant into the cradle. Now, after the meeting in Florida between President Bush and President Mitterrand, the French are arguing that we should increase the number of meetings between the United States and Europe at the ministerial level, that we should increase Atlantic cooperation. They have even been talking about setting that down in a treaty. So things have really been developing in a positive direction.

# China Aide Admits Rise In Detention And Torture

United Press International  
BEIJING — A senior Chinese legal official acknowledged Sunday that hundreds of people had been subjected to torture or wrongful detention in the first three months of this year, a big increase over 1989.

The admission, carried by the newspapers and the official Xinhua press agency, was contained in a report on legal cases by Liang Guoqing, deputy chief of the Chinese Supreme People's Procuratorate, the national attorney-general's office.

The report did not specify whether the cases involved those detained after the crackdown in June on the student movement that called for democracy.

Although the Chinese authorities have cited figures on wrongful detention and torture in previous years, the acknowledgment that the numbers have risen contradicts details by the government of human rights violations in China.

Mr. Liang said the government had received more than 9,500 complaints in the first three months of this year involving "dereliction of duty and infringement of citizens' rights." The cases included "perverting justice for bribes, extorting confession by torture, illegal detention and neglect of duty," he said.

He noted that officials had investigated 490 cases "involving deaths and injuries" and that the major cases represented a nearly 60 percent increase over the same period in 1989.

Western diplomats and human rights groups have estimated that 10,000 to 30,000 people were arrested or detained nationwide last year following the violent crackdown on the protests in Beijing.

Many of those detained have since been released, but have emerged with grim tales of confinement in neighborhood detention centers. Some former detainees have reported beatings, torture with electric prods and long confinement without sleep.

Dozens of students and intellectuals, including some of the leaders of last year's protests, are being held at the top-security Qincheng Prison in Beijing's northern suburbs. Most have been held incommunicado for nearly a year without being formally charged.

## Corruption Cases Rise

The number of officials arrested in China for corruption has risen sharply to 289 in the first quarter of this year compared with 50 in the first quarter of 1989, according to Xinhua, Agence France-Presse reported from Hong Kong.

The agency also said that 24,000 cases of embezzlement or bribery had been reported in the first three months of the year. The agency did not give figures for the previous year.

# WORLD BRIEFS

## Turks Seize More Iraq-Bound Pipes

ISTANBUL (Reuters) — Turkish customs officials said Sunday that they had seized two more truckloads of steel pipes that they suspected might be components for the Iraqi arms industry. They said two Iraq-bound trucks were being held at Turkey's Kapikule border with Bulgaria while investigations were underway. Another truck was seized last week.

Western fears that Iraq was developing a "doomsday gun" were prompted earlier in April when British customs officials impounded eight precision-made steel tubes they said could form the barrel of a supergun. Greece has also impounded a truck reportedly carrying a weapons system bound for Iraq.

## John Paul Concerned on Jerusalem

VATICAN CITY (Reuters) — Pope John Paul II said Sunday that he was deeply concerned over tensions between Arabs, Jews and Christians in Jerusalem, and he appealed for a solution that would respect the rights of all involved.

He was addressing a crowd in St. Peter's Square after the 24-hour closure on Friday of Christian holy sites in Israel and the occupied West Bank in protest over a Jewish settlement in the Christian Quarter of Jerusalem.

"The serious incidents that have occurred recently in the holy city and that led to the sorrowful decision to temporarily close holy places, particularly the Church of the Holy Sepulcher, are a cause, also for me, of suffering and profound concern," the Pope said.

## Colombian Is Asked to Leave Plane

BOGOTA (Reuters) — A former Colombian president was asked to leave a commercial jetliner amid fears his presence would jeopardize passenger safety after the midair assassination last week of a presidential candidate, newspapers reported Sunday.

The former president, Misael Pastrana Borrero, boarded the Avianca airplane en route to the port city of Cartagena on Friday. He and his bodyguards left when asked to by the pilot, the papers said. The incident came a day after Carlos Pizarro Leon Gomez, a former leader of the M-19 guerrilla group who was seeking the presidency, was killed in a machine-gun attack on an airplane.

The government later announced measures to reduce the risk to presidential candidates. It said that the Elite Corps, a police unit that was formed to fight guerrillas and drug traffickers, would be doubled in size, and that candidates would be given more free television and radio time to allow them to reduce their personal campaigning.

## Finnish Communists Change Name

HELSINKI (AP) — Finland's Communists, meeting over the weekend, disbanded the country's 72-year-old Communist Party and instead formed a Left-Wing Union in a bid to save the declining communist movement.

More than 4,000 delegates also voted to dissolve the Communist Party's umbrella organization, the People's Democratic League, and the breakaway Democratic Alternative faction.

## Nepal Leader Calls for Resignations

KATMANDU, Nepal (AP) — Nepal's new prime minister, Krishna Prasad Bhattarai, demanded the resignation of the country's 14 regional administrators Sunday, many of whom had supported a palace crackdown on demonstrators who sought multiparty government.

Mr. Bhattarai, a leader of the campaign for political parties, said he had told the officials during a meeting in Katmandu that their "office had become redundant" in Nepal's emerging multiparty democracy. Mr. Bhattarai, the Nepali Congress Party president, said there was no immediate reaction from the regional commissioners to his call for their resignation. Many of the commissioners had conveyed to the police the previous government's orders on April 6 to shoot demonstrators.

## Abortion Foes Rally in Washington

WASHINGTON (NYT) — Hundreds of thousands of people rallied in Washington to pledge their commitment to outlawing abortion and received promises of support from President George Bush and Vice President Dan Quayle.

Mr. Bush, who spoke to the crowd around the Washington Monument by telephone, said the "widespread prevalence of abortion in America is a tragedy." Mr. Quayle, who appeared at the rally Saturday, gave a statement of support, saying "the pro-life movement is the largest movement of our time." The police estimated the crowd at 200,000, but the organizers said the crowd was more than three times that size.

On Friday, the Connecticut Senate approved a bill that would issue a right to obtain an abortion in the state even if the U.S. Supreme Court strikes down the Roe v. Wade decision, which has dictated national abortion law since 1973. Under the bill, which has been approved by the Connecticut House and which Governor William A. O'Neill has pledged to sign, Connecticut would become the first state to make abortion a legal right rather than outlining conditions under which it is permitted.

## TRAVEL UPDATE

Air Tanzania has suspended night flights because of broken lights at airports serving Dodoma, Kilimanjaro, Tanga, Mwanza, Morogoro, Zanzibar and Pemba, the Sunday News of Dar es Salaam reported. The paper said no money was available for repairs. (Reuters)

## This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Czechoslovakia, Israel, Japan, Netherlands.  
TUESDAY: Afghanistan, Albania, Algeria, Andorra, Angola, Argentina, Austria, Bangladesh, Barbados, Belgium, Belize, Benin, Bolivia, Bulgaria, Burkina Faso, Burma, Burundi, Cameroon, Central African Republic, Chad, Chile, China, Colombia, Congo, Costa Rica, Cuba, Czechoslovakia, Djibouti, Dominican Republic, East Germany, Ecuador, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Finland, France, Gabon, Gambia, Ghana, Greece, Grenada, Guatemala, Guinea, Haiti, Honduras, Hungary, Iceland, Iraq, Italy, Ivory Coast, Jordan, Kenya, Lebanon, Liechtenstein, Luxembourg, Macao, Malawi, Mali, Malta, Mexico, Monaco, Morocco, Mozambique, Myanmar, Nicaragua, Niger, Nigeria, North Yemen, Norway, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Rwanda, Sao Tome, Senegal, Singapore, Somalia, South Yemen, Soviet Union, Spain, Sri Lanka, Suriname, Sweden, Syria, Tanzania, Thailand, Tunisia, Uganda, Uruguay, Vatican City, Venezuela, West Germany, Yugoslavia, Zaire, Zambia, Zimbabwe.

WEDNESDAY: Albania, Bulgaria, Romania, South Korea, Soviet Union, Yugoslavia.

THURSDAY: Japan.

FRIDAY: Japan.

SATURDAY: Japan, Mexico, South Korea.

SUNDAY: Liberia, Syria.

Source: Morgan Guaranty Trust Co., Reuters.

## WEATHER

EUROPE				ASIA			
	HIGH	LOW	PRECIP.		HIGH	LOW	PRECIP.
Amsterdam	54	44	0	Bangkok	86	76	0
Athens	64	54	0	Beijing	64	54	0
Berlin	59	49	0	Hong Kong	86	76	0
Bombay	86	76	0	Kobe	64	54	0
Buenos Aires	74	64	0	Manila	86	76	0
Calcutta	86	76	0	New Delhi	86	76	0
Cairo	74	64	0	Osaka	64	54	0
Canton	86	76	0	Shanghai	64	54	0
Cebu	86	76	0	Taipei	64	54	0
Colon	86	76	0	Tokyo	64	54	0
Dacca	86	76	0				
Dahomey	86	76	0	AFRICA			
Dar es Salaam	86	76	0				
Delhi	86	76	0	Accra	86	76	0
Detroit	54	44	0	Conakry	86	76	0
Frankfurt	59	49	0	Harare	86	76	0
Geneva	59	49	0	Lima	86	76	0
Hankow	64	54	0	Managua	86	76	0
Hong Kong	86	76	0	Medan	86	76	0
Kobe	64	54	0	Port of Spain	86	76	0
London	59	49	0	San Jose	86	76	0
Los Angeles	64	54	0	Sao Paulo	86	76	0
Lyons	59	49	0	Santiago	86	76	0
Madrid	64	54	0	Unionville	86	76	0
Moscow	59	49	0				
Mumbai	86	76	0	LATIN AMERICA			
Nairobi	86	76	0				
Paris	59	49	0	Buenos Aires	86	76	0
Perth	86	76	0	Caracas	86	76	0
Port of Spain	86	76	0	La Paz	86	76	0
Prague	59	49	0	Lima	86	76	0
Rangoon	86	76	0	Managua	86	76	0
Rio de Janeiro	86	76	0	Medan	86	76	0
Rome	59	49	0	Port of Spain	86	76	0
Sao Paulo	86	76	0	Sao Paulo	86	76	0
Seoul	64	54	0	Santiago	86	76	0
Shanghai	64	54	0	Unionville	86	76	0
Singapore	86	76	0				
Sourabaya	86	76	0	NORTH AMERICA			
Taipei	64	54	0				
Tokyo	64	54	0	Atlanta	86	76	0
				Boston	86	76	0
				Chicago	86	76	0
				Dallas	86	76	0
				Denver	86	76	0
				Houston	86	76	0
				Los Angeles	86	76	0
				Managua	86	76	0
				Medan	86	76	0
				Port of Spain	86	76	0
				Sao Paulo	86	76	0
				Santiago	86	76	0
				Unionville	86	76	0

MONDAY'S FORECAST — CHICAGO: Partly cloudy; High: 72, Low: 52. NEW YORK: Partly cloudy; High: 72, Low: 52. LOS ANGELES: Partly cloudy; High: 72, Low: 52. SAN FRANCISCO: Partly cloudy; High: 72, Low: 52. HONOLULU: Partly cloudy; High: 72, Low: 52. PORTLAND: Partly cloudy; High: 72, Low: 52. SEATTLE: Partly cloudy; High: 72, Low: 52. SPOKANE: Partly cloudy; High: 72, Low: 52. BUTTE: Partly cloudy; High: 72, Low: 52. DENVER: Partly cloudy; High: 72, Low: 52. COLORADO SPRINGS: Partly cloudy; High: 72, Low: 52. ALBUQUERQUE: Partly cloudy; High: 72, Low: 52. PHOENIX: Partly cloudy; High: 72, Low: 52. LAS VEGAS: Partly cloudy; High: 72, Low: 52. SALT LAKE CITY: Partly cloudy; High: 72, Low: 52. RENO: Partly cloudy; High: 72, Low: 52. CARSON CITY: Partly cloudy; High: 72, Low: 52. LAS VEGAS: Partly cloudy; High: 72, Low: 52. SALT LAKE CITY: Partly cloudy; High: 72, Low: 52. RENO: Partly cloudy; High: 72, Low: 52. CARSON CITY: Partly cloudy; High: 72, Low: 52.

# Anti-Ilescu Protests In 4 Romania Cities

Compiled by Our Staff From Dispatches

**TIMISOARA, Romania** — Thousands of protesters staged anti-government rallies in at least four Romanian cities on Sunday to demand the removal of the interim president, Ion Ilescu.

About 15,000 people in the western city of Timisoara, birthplace of the December uprising that drove Nicolae Ceausescu from power, denounced Mr. Ilescu and the ruling National Salvation Front as neo-Communists.

In Bucharest, an anti-government protest in University Square went into its eighth day with up to 10,000 people taking part. Protesters vowed to continue their vigil until the May 20 elections. They waved banners proclaiming the square a "Neo-Communist-Free Zone."

A speaker at the rally in Bucharest, Stelian Tanase of the Group for Social Dialogue, said of the government, "They are offering us Communism in a sweet box." He added that they wanted sweeping changes, not perestroika, or Soviet-style change.

A government spokesman described the Bucharest protest as a "demonstration of the extreme right."

Protests have swelled in the last week ahead of the country's first free elections for more than half a century on May 20, in which Mr. Ilescu is running for president as the candidate of the National Salvation Front.

In Timisoara, protesters packed the ornate Opera Square in the shadow of a cathedral chanting "Down with Ilescu!"

If the Communist Party establishment held on to power, "then there was no revolution in Romania," said George Serban, a leader of Timisoara's main opposition group, speaking to a cheering crowd. "Then it was merely a popular revolt followed by a coup."

The crowd waved banners saying "We Don't Want Communism With a Human Face" and "The NSF is an Offspring of Communism."

Opera Square, where flowers and crosses commemorate scores of people killed in December, was filled with the amplified sounds of revolutionary chants recorded during the uprising.

Mr. Serban is vice president of the National Alliance for the Timisoara Declaration, which comprises the city's main opposition groups. The alliance demands that former Communist officials be banned from running for public office for three electoral terms.

Opponents of the National Salvation Front accuse it of harboring former Communists and of wanting to introduce a new type of communism in Romania. Front leaders reject the charges.

At Constanta, Romania's main Black Sea port, thousands of anti-government protesters and Front supporters shouted insults at one another.

In the Transylvanian town of Cluj, rival protests confronted each other, but there were no reports of violence.

(Reuters, AP)



Romanian protesters in Timisoara on Sunday shouting anti-Communist and anti-Ilescu slogans

# Shuttle Lands, but Telescope Is Acting Up

Compiled by Our Staff From Dispatches

**EDWARDS AIR FORCE BASE, California** — The space shuttle Discovery landed safely here on Sunday, but scientists said the Hubble Space Telescope it deployed during its mission will probably never work with 100 percent efficiency.

Jean Olivier, deputy project manager for the telescope, said that he was optimistic that partial use of a malfunctioning antenna could be regained, but that he doubted it would ever be fully effective.

This would limit the activities of the Hubble, "but it's not as though you would cut the effectiveness of the space telescope in half," Mr. Olivier said.

The landing of Discovery on a concrete runway at Edwards Air Force Base was flawless. It used

high-efficiency carbon brakes for the first time. Within minutes of the landing, the National Aeronautics and Space Administration announced that landings for some missions "in the not-too-distant future" would be at Kennedy Space Center in Florida. The shuttle is launched from there.

William Lencir, NASA's associate administrator for space flight, said that the plan was for 40 percent of shuttle landings to take place eventually at Kennedy.

Mr. Olivier said at a news conference at the Goddard Space Flight Center in Maryland that the problem with the Hubble involved one of the telescope's two high-gain antennas, parabolic dishes mounted on masts extending from each side of the 12-ton telescope. The antennas are needed to transmit data from the telescope to astronomers on the ground.

The antennas were designed to swivel on computer command to lock onto and track a NASA data-relay satellite, maintaining a cru-

cial link between ground controllers and the satellite regardless of its orbital position.

But when ground controllers tried to point one of the antennas at the relay satellite, a motor showed signs of strain, indicating the antenna was stuck. Mr. Olivier believes that one of many cables near the counterweight on the antenna.

Engineers managed on Sunday to get the satellite to beam down stored data about the antenna's motion by using one of the observatory's low-gain antennas, even though they are designed only to receive commands.

"At the worst we can operate it with one," Mr. Olivier said. "It's not something we would want to do, but it would still be effective."

As many as 75 engineers are working at Goddard, the Marshall Space Flight Center in Huntsville, Alabama, Lockheed Missiles & Space Co. in Sunnyvale, California, and elsewhere, to try to solve the problem.

Engineers are optimistic they will be able to regain use of the antenna, although the best they can hope for is movement through a large though limited range. Even so, Mr. Olivier said it was hoped that the telescope would have more than 75 percent of its planned capability.

In any case, the Hubble will not be able to contact the relay satellite as often as originally planned, limiting the amount of scientific data that can be beamed to Earth as it is gathered.

Instead, the telescope will store information on the satellite's tape recorders longer, and will transmit the data less frequently to scientists on Earth. The other alternative, he said, would be to put the information on on-board tape recorders which would transmit it to Earth via low-gain antennas.

Despite the setbacks, Mr. Olivier said the first pictures from the Hubble were expected in a week. (Reuters, AP)

# ANC and Communists Say Militancy Brought Talks

The Associated Press

**CAPE TOWN** — Leaders of the exiled African National Congress and the Communist Party said Sunday that their fighters had done more than President Frederik W. de Klerk to bring about dialogue with blacks.

Joe Slovo, a white who is the leader of the South African Communist Party and a member of the ANC leadership, and other ANC leaders who returned to South Africa for the first time in nearly 30 years addressed a mostly black crowd of 30,000 in a stadium here. They said they would demand redistribution of wealth and majority rule when they eventually negotiate with the white government.

"It is you, the youth, the young lions who have and are still prepared to struggle in the face of death, who refuse to bow down before race domination, who made it happen," Mr. Slovo said.

He said he had risked his reputation by stating that Mr. de Klerk was a man of integrity, and he thought



## In New Mohawk War, It's AK-47s and Uzis And All Bets Are Off

By William Claiborne  
Washington Post Service

CORNWALL, Ontario — The St. Regis Indian Reservation, which straddles the U.S.-Canadian border along the St. Lawrence River, has become a virtual war zone.

A long-simmering tribal feud over gambling casinos has escalated into battles at heavily armed roadblocks.

Every night, the sound of AK-47 rifle fire — and occasionally of hand grenades — reverberates through the 14,000-acre (5,000-hectare) reservation while New York state and Canadian provincial police stand at a safe distance watching motorists not to venture into St. Regis.

Only three people have been wounded in the battles, which began to step up on Tuesday night. Then, a faction of the Akwesasne Mohawks that supports the presence of six casinos on the U.S. side of the reservation assaulted and captured two roadblocks erected March 23 by an anti-gambling faction.

The casinos have been declared illegal by the federal government. The roadblock battle followed a night of heavy fighting and a grenade attack on the Mohawk police station on the Canadian side, during which hundreds of AK-47 rounds were poured into the building.

Dozens of cars have been burned or riddled by bullets during the attacks on roadblocks,

and an Indian college building was heavily damaged in a fire-bomb attack earlier this week.

"It's a community in turmoil," said a New York State Police lieutenant, Al F. Cray, whose troops warn motorists on the U.S. side of the border bridge over the St. Lawrence. "It's open warfare, and it's just a miracle that nobody has been killed yet."

Neither the state troopers nor the Canadian police have tried to intervene because of longstanding sovereignty agreements with the 9,500 Indians and because they say it might provoke more fighting.

"If we responded, we probably would be the catalyst that would make things really erupt and probably end up taking lives," Lieutenant Cray said.

The police withdrew from St. Regis in July when confronted by armed men of the Akwesasne Warriors Society after a raid on the gambling casinos by the state police and the FBI.

The casinos started as bingo parlors in 1984, with the profits ostensibly going into tribal welfare programs. But they evolved into full-scale gambling halls with slot machines and poker tables, and many Mohawks complain that the profits from the gamblers, who come mostly from off the reservation, are going to outside financial backers.

The Warriors, armed with assault rifles and Israeli-made Uzi submachine guns apparently purchased in the United States, took



A Mohawk manning a roadblock on the Canadian side.

control of the U.S. sector of the reservation to protect the casinos. That prompted the anti-gambling faction to set up roadblocks in March to prevent gamblers from reaching the casinos.

But the dispute reaches deeper than gambling rights or claims by the Canadian Mohawks that the casinos are controlled by American organized crime and are used as a cover for smuggling.

It pits followers of traditional tribal leaders who trace their authority to the mid-18th century, before there was an international border, and Indians whose loyalty is to the inheritors of trust-ships granted to the Mohawks much later by the U.S. side.

## French-German Step Had Bush Backing

By David Hoffman  
and Ann Devroy  
Washington Post Service

WASHINGTON — The Bush administration privately encouraged France and Germany to urge Lithuania to suspend its bid for independence but stopped short of publicly endorsing the French-German initiative to avoid domestic political problems, according to officials.

President George Bush and Secretary of State James A. Baker 3d have recently had a series of meetings and phone conversations about Lithuania with the French president, Francois Mitterrand, the West German chancellor, Helmut Kohl, and the Soviet foreign minister, Eduard A. Shevardnadze, the officials said.

Mr. Bush and Mr. Mitterrand met in Key Largo, Florida, seven days before the joint statement on Thursday by France and Germany and had a long private discussion on Lithuania and the Western response.

On Thursday, a White House official had said the administration had "no advance knowledge and no advance involvement" in the Mitterrand-Kohl effort. But on Friday, officials modified this statement, saying that although the timing and precise nature of the proposal by Mr. Mitterrand and Mr. Kohl was "a surprise," the overall thrust of the effort was endorsed by Mr. Bush and Mr. Baker.

Both have made clear their desire for a resolution of the Lithuania crisis that would lead to negotiations. Mr. Bush has privately expressed impatience with the Lithuanian leadership, which he feels is moving too far, too fast and creating a confrontation with the Soviet president, Mikhail S. Gorbachev, officials said.

In their joint appeal, Mr. Mitter-

rand and Mr. Kohl asked Lithuania to suspend its bid for independence to facilitate negotiations with Moscow.

Lithuania and Moscow seemed to be moving Sunday toward compromise after the Kremlin said it would accept a freeze instead of a renunciation of the declaration of independence. The Lithuanian president, Vytautas Landsbergis, welcomed the proposal.

The action followed Mr. Bush's decision Monday not to impose economic sanctions against the Soviet Union for its economic blockade of Lithuania.

A second administration official said the French-German move had

been encouraged by the United States as one that would "fall within our definition of finding a mechanism to create a process" of negotiation between Vilnius and Moscow.

A State Department spokesman, Richard A. Boucher, said the letter by Mr. Mitterrand and Mr. Kohl "represents their effort to defuse the situation."

He added: "We didn't sign the letter. It's their idea on how to get a dialogue, and we support anything that could lead toward that end."

Mr. Boucher said that both sides needed to find a way to get to dialogue.

Officials said Mr. Bush wanted

to avoid being too closely identified with the Mitterrand-Kohl proposal because it contains an explicit call for a suspension of the independence drive. An explicit Bush endorsement could stir a domestic political backlash, officials said.

The second administration official said the letter had come at "a very politically sensitive time in which we feel we have a certain reprieve from Congress but not a very long one."

He said that having decided against sanctions and with the U.S.-Soviet trade agreement all but announced in Paris, "the last thing we need is to look like we're asking Lithuania to give up its independence."

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## When \$1.2 Million Doesn't Save a Life

By Milt Freudenheim  
New York Times Service

PITTSBURGH — In a dramatic illustration of the way rapid advances in medical care in the United States sometimes collide with the will to pay for them, an employer is objecting to a \$1.25 million bill for a worker's spouse who became the first person to receive a new heart, liver and kidney in the same operation.

The patient, Cindy Martin, 26, is a former executive secretary on Archibald, Pennsylvania. She died March 26 after almost four months in intensive care at Presbyterian University Hospital here.

"They tried to make her life better," said her husband, John. "But she suffered for four months in the hospital, and nothing was really accomplished."

Mrs. Martin was covered under health insurance of her husband, an engineer at Loral Corp., a military contractor.

Loral has repeatedly declined comment on the case, and the insurance company that administers

and Canada and states like Oregon are trying to give priority to primary care.

Arthur L. Caplan, who heads the Center for Biomedical Ethics at the University of Minnesota, suggests "a government commission, which can come up with policies and guidelines that would govern experimental and innovative medical interventions."

But Gail R. Wilensky, an economist who is head of the U.S. Health Care Financing Administration, said it would be "very difficult, if not impossible, for this country to try to set up rules about who should not be able to have the use of medically beneficial technologies."

The case of Cindy Martin encapsulates the difficulty of deciding not to go ahead with an attempt to save a life, even an extremely costly effort.

Mrs. Martin, who came from a family plagued by early deaths associated with heart disease, had already undergone a heart transplant in October 1985 at the hospital, a unit of the University of Pittsburgh's medical center.

That procedure, which usually costs about \$150,000 with follow-up care, was covered by her employer, McKimney Products Co., a Scranton hardware maker.

Her doctors said that her heart was weakening and that a drug that transplant patients must take was destroying her liver and kidneys.

"She was a patient dying, with three organs failing," said Dr. Thomas Starzl, a prominent transplant surgeon. He said the hospital had a commitment to Mrs. Martin in part because it provided her first transplant.

The hospital said after the operation in December 1989 that Mrs. Martin might live 5 to 10 years. But surgeons acknowledge that even in a single-organ transplant, there is a 15 to 25 percent chance of death within months. If the operation fails and is repeated, the odds against the patient rise.

The Pittsburgh transplant doctors said they did not concern themselves with who would pay or how much, pulling back only in hopeless cases.

After the 21-hour operation to transplant three organs in early December, Mrs. Martin underwent surgery seven more times, her husband said. Eventually, she contracted hepatitis.

Dr. Starzl said the doctors then considered providing yet another liver. He rejected the idea, and Mrs. Martin agreed, as did her family. Her death was attributed to infections that often follow transplants.

At least 36 people worked on her during the operation in December: 11 surgeons, 6 anesthesiologists, 15 nurses, a physician's assistant, 2 blood technicians and a liver technician.

There were also charges for the seven surgical procedures and 113 days in the intensive-care unit as the doctors struggled to save her.

John W. Paul, a vice president with the medical center, said the hospital had received approval from Loral's insurance administrator, Cigna Corp., before proceeding with the treatment.

Although Loral would not comment on its costs, the \$1 million bill could by itself raise the annual health-care bill by 3 to 5 percent for a company of its size, 12,000 employees.

Mr. Martin, 31, who spent three years helping to care for his wife, is in theory responsible for about \$250,000 of the bill, since there is a \$1 million limit in Loral's employee health plan.

The hospital said it would "take a very realistic look" at his ability to pay.

'She suffered for four months in the hospital, and nothing was really accomplished.'

John Martin, transplant patient's husband.

ie company health plan would say only that payment was being withheld because it was not satisfied with the billing information provided by the hospital.

But physicians, benefits consultants and ethicists say a growing number of challenges to medical care are part of a revolt by employers against soaring health care expenses that erode their profitability, competitiveness and ability to raise wages.

They say employers are increasingly asking whether they are overpaying for medical care, and even questioning whether in some cases the enormous cost of an operation might outweigh the benefits when the chances of prolonging a life seem small.

Most experts agree that taking heroic measures with little thought of costs is the American way of slivering health care, at least for those with comprehensive insurance.

Economists estimate that advances in high-technology medicine contributed at least one-fifth of the 10.1 percent growth last year in spending on health care in the United States, costs that the U.S. Commerce Department says will exceed \$660 billion in 1990.

In 1980, such spending came to \$48 billion.

The issue is only expanding, but with expensive advances that include transplants not only of organs but also of bone marrow, the supply of which is virtually unlimited, in contrast to organs. Other costly advances include heart bypass operations, computerized diagnostic scans and genetically engineered drugs.

Although heroic medical efforts are well intended, some experts say they wonder whether, in cases here the chances of success are small, the money might better be used in ways that would benefit more people. Among the alternatives that might be funded are preventive health measures like vaccinations and prenatal care, and eating up the environment.

Indeed, some countries like Brit-

Investing in a Blue-Chip Future

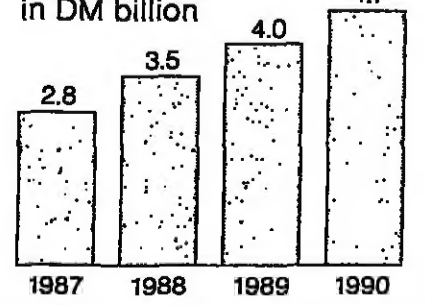
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**RAID ENDS HYUNDAI STRIKE** — Protesters retreating from tear gas Sunday in Ulsan, South Korea, where clashes continued after thousands of policemen stormed the Hyundai Heavy Industries Co. shipyard, ending a three-day strike. The police arrested 636 people in the raid and daylong clashes Saturday. About 1,500 students protesting the raid clashed with the police in Seoul, and workers at several Hyundai subsidiaries said they would strike on Monday in protest.

## As the Germanys Look To NATO, Soviets Urge End to Europe Alliances

By Jim Hoagland

**DUBLIN** — Soviet alarm over a reunited Germany becoming part of NATO appears to have triggered a reassessment in the Kremlin of the future of East-West security arrangements, with Moscow renewing demands for the dismantling of military alliances in Europe.

The renewed Soviet emphasis on dissolving both the Warsaw Pact and the North Atlantic Treaty Organization surfaced Saturday in published remarks by the Soviet foreign minister, Eduard A. Shevardnadze. He said Germany should become "a testing ground" for new forms of East-West security cooperation after reunification.

Returning to an idea he floated in Washington last month, Mr. Shevardnadze said in an interview with the Irish Times that a reunited Germany should be "nonaligned" militarily. By joining both alliances for a transition period, he said, Germany could become a place where the alliances "would be gradually dissolved" and replaced by "all-European security arrangements."

The interview was published as national leaders in the European Community met in Dublin to review German reunification. Mr. Shevardnadze appealed to the EC to support a new Soviet proposal for "synchronization" of the unification process with the draw-out of new security arrangements to be designed and carried out by the 35-nation Conference on Security and Cooperation in Europe.

But as if in counterpoint to Mr. Shevardnadze's remarks, several EC leaders made a point Saturday of reemphasizing the need to maintain NATO and to integrate a reunited Germany into the alliance.

Spokesmen for the British prime minister, Margaret Thatcher, and the French president, François Mitterrand, said that the two leaders independently emphasized that NATO remain essential to European defense, a theme rarely taken up at EC summit meetings.

This indirect East-West dialogue reflected a hardening of positions on security questions by both sides since the East German election March 18. That vote produced an East German government committed to rapid reunification largely on Western German terms.

European diplomats attending the Dublin meeting said the election result appeared to stun the Soviets and to make them realize that the reunification process had escaped their control.

The diplomats interpreted Mr. Shevardnadze's remarks as a clear sign that the Soviets have turned their energy toward extracting concessions on post-reunification security arrangements in Europe if they cannot affect the course of reunification itself.

"The Soviets must have begun to realize that they can do little to stop Germany from joining NATO if Bonn makes it a condition of unification," said a Western analyst in Dublin. "But they can work to dilute NATO so much that German membership will be meaningless. They may figure that this could be attractive to the Germans, too, ultimately."

Soviet policy has long included a rhetorical commitment to the ultimate dismantling of the two Cold War alliances. But as political change swept Eastern Europe last summer, Mr. Shevardnadze and President Mikhail S. Gorbachev began to emphasize that it would be necessary to maintain the two alliances for a long, undefined transitional period to help wind down the Cold War.

By maintaining the two alliances, Moscow also undoubtedly hoped to maintain two Germanys and some oversight of its East European satellites. But this approach was overwhelmed by the collapse of the Warsaw Pact and the Germans' rush toward reunification.

The disappearance on March 18 of the option for two Germanys appears to have caused the Soviets to think again about the utility of alliances they have ceased to head.

Mr. Shevardnadze was quoted as saying that the present military and political structures on the European continent "were shaped not for a united Germany but for two German states belonging to different alliances."

"It would be a mistake," he added, "to destroy the existing security systems in the course of building the German unity without creating new ones to replace them."

But the praise for NATO on Saturday in the EC meeting indicated that for Britain and France the rush toward German reunification has enhanced NATO's role in West European affairs.

Diplomats suggested privately that for Western countries worried about Germany's new strength, NATO provides additional points of leverage and perhaps even control over Germany.

## GERMANY: Moscow Adamant

(Continued from Page 1)

idea that a united Germany could belong both to NATO and the Warsaw Pact.

Mr. Gorbachev has previously called for radical changes in the roles of both NATO and the Warsaw Pact, urging greater emphasis on political and economic missions now that European disarmament is taking place.

After his talks with Mr. Gorbachev and other Soviet officials, Mr. de Maizière said that "NATO should change its structure and strategy to discuss the issue of our membership."

"Neutrality is not a solution to the problem," he added, without discussing Mr. Shevardnadze's latest mention of a possible non-aligned status for Germany.

Mr. de Maizière said it was important to "obviate" the Eastern and Western security alliances, rather than emphasizing them by establishing neutral states. "We do not want to play the role of a buffer zone," he said.

## Genscher Is Taken Ill During Political Speech

Reuters

**DUSSELDORF** — The West German foreign minister, Hans-Dietrich Genscher, was forced to break off a political speech in Düsseldorf on Sunday after feeling ill, officials said.

The Foreign Ministry spokesman said Mr. Genscher, 63, appeared to be exhausted and denied he had had a heart attack. He suffered a mild heart attack in July 1989 and had bouts of heart trouble in 1977 and 1979.

## In Downing U-2, Soviets Lost Plane

The Associated Press

**MOSCOW** — The army newspaper Red Star disclosed for the first time Sunday that when the Soviets downed a U.S. spy plane 30 years ago they also destroyed one of their own fighters that was pursuing the American U-2.

The U-2, piloted by Francis Gary Powers, was shot down on May 1, 1960, disrupting a meeting 19 days later in Paris between President Dwight D. Eisenhower and Nikita S. Khrushchev and forcing the cancellation of another summit meeting planned for later that year.

Red Star said the Soviets lost a MiG-19 and its pilot in the operation.

The paper also disclosed for the first time that the Soviets sent up a new fighter plane and ordered its pilot to ram the U-2 in a suicide mission. The new fighter reached the U-2's altitude of about 21,400 meters (70,000 feet) but failed to ram it.

The article, published before May Day festivities, may have been intended to remind Soviet readers that U.S. actions have damaged superpower ties in the past. In recent days, Soviet officials have warned that relations might suffer if Washington imposes sanctions on Moscow in retaliation for its crackdown on the breakaway of Lithuanian republic.

Red Star said that Mr. Khrushchev was atop Lenin's Mausoleum in Red Square watching the May Day military parade when he learned that a new model Soviet SA-2 surface-to-air missile had brought down the U-2.

The commander of the Soviet air defense forces, Marshal Sergei Biryuz, climbed to the mausoleum "carrying happy news, that the plane had been hit

by the first rocket," the article said. "And Khrushchev, standing right there on the tribune, congratulated the marshal."

Mr. Khrushchev, in memoirs smuggled to the West and published in 1974, wrote that diplomats watching the parade knew something big had happened because Marshal Biryuz wore a duty uniform rather than the parade dress worn by the other military officers in Red Square.

Soviets hurrying to the May Day parade in the city of Sverdlovsk in the Ural Mountains, saw a far different sight, what appeared to be fireworks high in the air.

The fiery debris was a Soviet MiG that was damaged by a missile that exploded behind the U-2, Red Star said.

The Soviets had scrambled two MiGs. The pilot of one MiG, Boris Ivazyan, reported to ground control that the debris seen was actually that from an missile that had missed the U-2, prompting the ground battery to fire another, which downed a MiG flown by Sergei Safronov, 30, who died.

Mr. Powers' mission began in Pakistan and carried him over Sverdlovsk toward a planned landing in Norway.

He did not use an automatic destruction device or a poison pin that he had been given in case the mission failed, and he was captured at a collective farm near Sverdlovsk.

Mr. Powers was held by the Soviet Union until 1962, when the United States arranged for him to be exchanged for an imprisoned Soviet spy, Colonel Rudolph Abel. Mr. Powers died in August 1977 when the TV news helicopter he was piloting crashed in Encino, California.

## Cheney Expects Gorbachev to Fail

By Patrick E. Tyler

Washington Post Service

**WASHINGTON** — Defense Secretary Dick Cheney said Sunday that he believed President Mikhail S. Gorbachev would fail in his effort to restructure the Soviet economy and was likely to be replaced by someone far more hostile to the West.

In repeating a prediction he first made a year ago, which drew chastening remarks from the White House, Mr. Cheney appeared to be raising the volume of doubt among conservatives in the Bush administration about Mr. Gorbachev's future. Mr. Cheney said his attitude was fortified by the Soviet leader's recent decision to defer restructuring of the Soviet pricing system.

"It certainly deepens my pessimism about the prospects for economic reform in the Soviet Union," Mr. Cheney said. "They have to undertake major, radical transformations of their economy. I think the slide they're currently in will continue, and the situation will only get worse."

In the year since he first made his prediction, Mr. Cheney has avoided repeating it in public. President George Bush and other senior administration officials made clear that the administration's tone should be one of support and optimism for the Soviet leader's efforts to radically restructure the Soviet economy.

Mr. Cheney reformulated his public position to say that it was his job as defense secretary to guard against a reversal of the positive trends in Eastern Europe and the

Soviet Union because it was impossible to predict whether a future Soviet leader might resurrect an aggressive foreign policy.

The defense secretary made his remarks while discussing the Bush administration's \$306 billion request for military spending for 1991.

He was also questioned on his support for Mr. Bush's decision last week to forgo applying sanctions against Moscow for cutting off oil, gas and other supplies to Lithuania.

"It's a very, very difficult, delicate proposition," Mr. Cheney said. "We'd like to see ultimately the Lithuanians be able to enjoy their right to self-determination."

"And so far," he said, "I think the president has handled it very well."

## ISRAEL: A Low Point in Relations With Washington

(Continued from Page 1)

lity in the dispute between Mr. Peres and Mr. Shamir.

But State Department officials did little to conceal their delight when Mr. Peres brought down Mr. Shamir's government last month and appeared on the verge of forming a new governing coalition. Such a coalition would likely have embraced Mr. Baker's proposals.

Now that Mr. Peres's efforts to form a government lie in ruins, analysts on both sides of the Israeli political divide place some of the blame on Washington.

They say the Bush team miscalculated the political mood in Israel, misinterpreted Mr. Shamir's position and put too much pressure on the rightist prime minister to defy not only his political constituency but his own beliefs.

At best, these analysts contend, Israel will now produce another fragile government of "national unity" under Mr. Shamir, one that will remain paralyzed by deep divisions over the peace process.

At worst, Mr. Shamir will head a narrowly based government dependent for its survival on far-right extremists and religious fundamentalists that will dramatically increase Jewish settlements and crack down harder on Palestinians.

The administration is certain to face an increasingly hostile and suspicious Mr. Shamir. He believes that his worst fears about U.S. complicity with his enemies — Mr. Peres and the Palestine Liberation

Organization — have been confirmed.

"Wittingly or unwittingly the Americans helped precipitate the collapse of this government," said Harry Wall, Jerusalem director of the Anti-Defamation League of B'nai B'rith and long an observer of U.S.-Israeli relations.

"But whatever government may be formed now won't be capable of giving an unambiguous answer to

**A senior Israeli official complains of daily blasts from Washington.**

Baker's proposal," he said. "So they've only succeeded in putting more distance between Washington and Jerusalem and setting back the process."

Israelis have begun to compare Mr. Bush to Jimmy Carter, whose relationship to Israel as president was intimate but stormy.

One indication of this, they contend, was the recent visit by the Senate minority leader, Bob Dole of Kansas, who lashed out against Israeli settlement policies. He also likened Israel to a "spoiled child" and warned that U.S. aid very likely would be curtailed.

Mr. Dole, they believe, was speaking not only for himself but carrying a message from Mr. Bush

and Mr. Baker that times could get tough if Israel does not cooperate.

It reminded some officials of the days when the Carter White House used the Senate majority leader, Robert C. Byrd of West Virginia, to send the harsh messages that Mr. Carter did not want to communicate directly.

Both sides agree that the Israelis and their American Jewish allies may have grown complacent during the warm days of Ronald Reagan and Secretary of State George P. Shultz and taken U.S. support or acquiescence for granted.

"They grew used to an America they saw as endlessly indulgent and malleable," said a long-time diplomatic observer of the Israelis. "They are unaccustomed to honest differences among friends."

Now that Mr. Peres has been defeated, Mr. Shamir's aides hope Mr. Bush and Mr. Baker will back away and turn down the heat.

"When the administration is faced with a new Shamir government, they will work with a new Shamir government," an official said. "Even though we have differences from time to time, there are deep mutual interests."

Others are not so sure. They note a permanent change in tone by the administration, whose spokesmen seldom emphasize these days the special friendship between Israel and the United States as they did during the Reagan years.

## DUBLIN: An EC Push for Post-Cold-War Innovation

(Continued from Page 1)

tional concessions to East Germany.

In his campaign to win EC backing, Mr. Kohl insisted on postponing the Dublin summit meeting for eight weeks, until East German elections in March accelerated the reunification outlook.

Most European leaders had failed to anticipate this pace, but they were gradually reconciled to it, thanks to unflinching reassurances about Germany's loyalty to the Community and NATO.

Now, a summit member said, European leaders believe that delay in reunification would increase the risk of economic complications because of East Germany's peculiar status as a halfway house between the West and the Soviet Union.

Sealing support for West Germany at the Dublin meeting, Mr. Kohl joined President François Mitterrand in calling for "EC political union" in conjunction with the Single Market and economic union planned for 1993.

The British prime minister, Margaret Thatcher, dissuaded the summit meeting from according outright agreement to this goal.

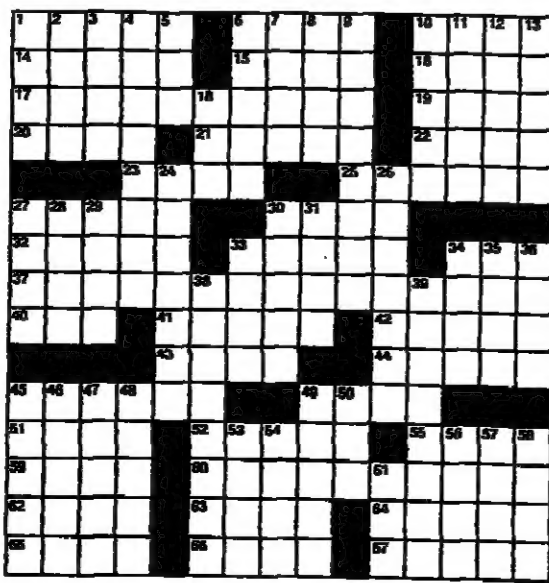
Although she probably managed to delay the process for only two months, while EC foreign ministers study concrete options, British officials said they were gratified by what one called "glittering liquidity" that tighter EC integration and new departures in the Conference on Security and Cooperation in Europe should not undercut trans-Atlantic ties.

**ACROSS**

- 1 Jersey and Guernsey
- 6 Dignified cousin of "Struts"
- 10 Sawbill
- 14 Owl of comics
- 5 Chanteuse
- 6 Cab
- 7 What educators don't do
- 19 Bananas' land
- 20 State firmly
- 21 Peeled
- 22 Sagacious
- 23 Box lightly
- 25 Turns over
- 27 Mountain mint
- 30 One of the three B's
- 32 "... who lived in
- 33 Potato, e.g.
- 34 Architect I. M.
- 37 Flag carriers
- 40 Utter
- 41 Slip by
- 42 Finch
- 43 Abounding in
- 44 Time excess of a sort
- 45 Took long steps
- 46 Medicine portion
- 51 Kind of year
- 52 Stormed
- 53 Too
- 54 Army group
- 55 Kind of play by a hot-dog
- 56 Glasses supporter
- 57 Woes
- 58 High nest
- 59 Alum
- 60 Nat King
- 61 Snares
- 4 Inside-out state
- 5 Coral or yellow
- 6 Basilica feature
- 7 King or Norman
- 8 Queen or princess
- 9 Pharisee opponent
- 10 Simmers
- 11 Berlin hit: 1928
- 12 Live
- 13 Napa Valley product
- 18 Baden-Baden, e.g.
- 24 Solemnly promised
- 26 Word groups
- 27 Fish or voice
- 28 Movie dog
- 29 Holmes's "one-holes"
- 30 One of the Baers
- 31 Singer-dancer Lane
- 33 Adam
- 34 Pacman's fear
- 35 — the Red
- 36 "It Romantic?": 1932 song
- 38 Having a certain hypersensitivity
- 39 Six-shooter
- 45 Tossed
- 46 Quartet member
- 47 Mrs. Gorbachev
- 48 Chose
- 49 Thick
- 50 Not even
- 53 Folk singer
- 54 Guthrie
- 54 Chutzpah
- 56 Zhigago's love
- 57 Prune the hedges
- 58 Pindar's prides
- 61 Was in session

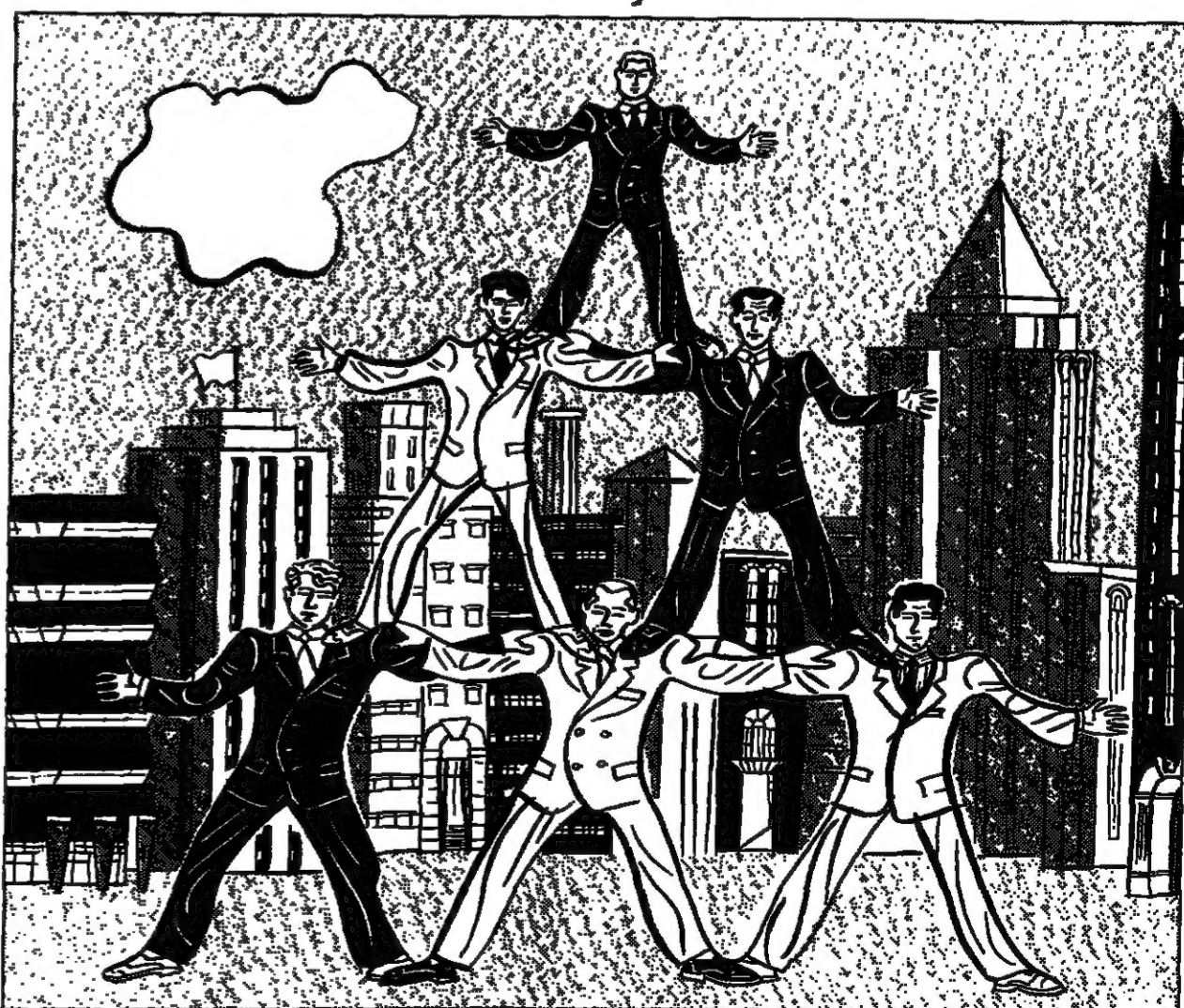
**DOWN**

- 1 Speck
- 2 An Eastern European
- 3 Be pleased by
- 14 JATS
- 15 SIDE
- 16 TROD
- 17 TERSE
- 18 FORECASTS
- 19 OASIS
- 20 STEEM
- 21 EARNEST
- 22 PREP
- 23 LIME
- 24 CALENES
- 25 REDUCE
- 26 RIES
- 27 CITED
- 28 NOW
- 29 ADS
- 30 PALES
- 31 EIRE
- 32 VE
- 33 HANKS
- 34 ESTER
- 35 ESCUE
- 36 STOPPERS
- 37 AMAH
- 38 STIR
- 39 ORMOH
- 40 ICEAGE
- 41 MEER
- 42 EMOSSERS
- 43 OIRE
- 44 DAIS
- 45 SOIT
- 46 ONAD
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- 48 ONTO



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# Taiwan: Rich but Uneasy

## Capital Flight Threatens An Overheated Economy

In 1990, a Second Year of Zero Export Growth

**T**AIPEI — The casual observer could be forgiven for doubting Taiwan's economy is one of the richest in the world.

The country is likely to record its second consecutive year of zero export growth in 1990. A steady capital flight, high inflation from an appreciating currency, a decline in individual savings rate, a labor shortage, tight credit rates are squeezing its core manufacturers, and infrastructure development plans that are expected to hog the capital city for much of this decade.

After years of runaway growth, Taiwan is facing an economic reckoning. Although the gross national product is expected to expand

After decades of uncontrolled expansion, Taiwan is now facing an economic reckoning.

by a respectable 6 percent this year, two years of spiraling inflation has forced manufacturers to either automate or relocate. And government officials are shepherding producers away from making such labor intensive items as textiles and toys, and toward high-tech goods.

Through tax incentives and subsidized research and development, the government has been largely successful. Electronics remains the country's leading export, and manufacturers are steadily expanding their product range. The country's fledgling aerospace industry, although struggling to find a cohesive growth strategy, is also growing.

Taiwan's financial services sector is also developing. Domestic banks are slowly meeting the growing demand for project finance and mergers and acquisitions, given the exodus of manufacturers in search of cheap labor and lower production costs overseas.

"These small companies need advice," said Michael Chang, president of Global Capital Management Co. "A lot of them have never even borrowed money before."

Despite the growing demand for financial services, however, foreign firms in Taipei continue to suffer from regulations designed to protect domestic interests. Overseas securities

houses, for example, are still restricted from doing business in Taiwan unless they accept a minority stake in a joint venture with local companies.

Deregulation has been slow. "The government often releases some concession to overseas businesses to see what the reaction is, and if there's no sabotage of the market, they'll take another step," said Peter Kurz, managing director of Baring Securities Taiwan. "The government wants to make sure its local companies can stand up to foreign competition before it opens up."

Still, analysts said more exposure to overseas competition would expand the investment options available to Taiwan's consumers, the vast majority of whom are obsessed with the stock market. Every day, Taipei's casino-like stock trading rooms woo thousands of laborers away from the workplace, eroding the work ethic on which Taiwan's economic miracle was built.

Taipei's average household income has reached \$2,000, sparking a surge in consumer spending and a rapid decline in the savings rate, from a high of 39 percent in 1987 to a forecast 30 percent this year.

The debt and credit markets are woefully illiquid, although some analysts said they expect a growing demand for corporate bond issues, as companies turn to debt to finance capital upgrades or product research. Bankers Trust Company, which is actively promoting new instruments in Taiwan, said it is consulting about a dozen firms about convertible bond issues.

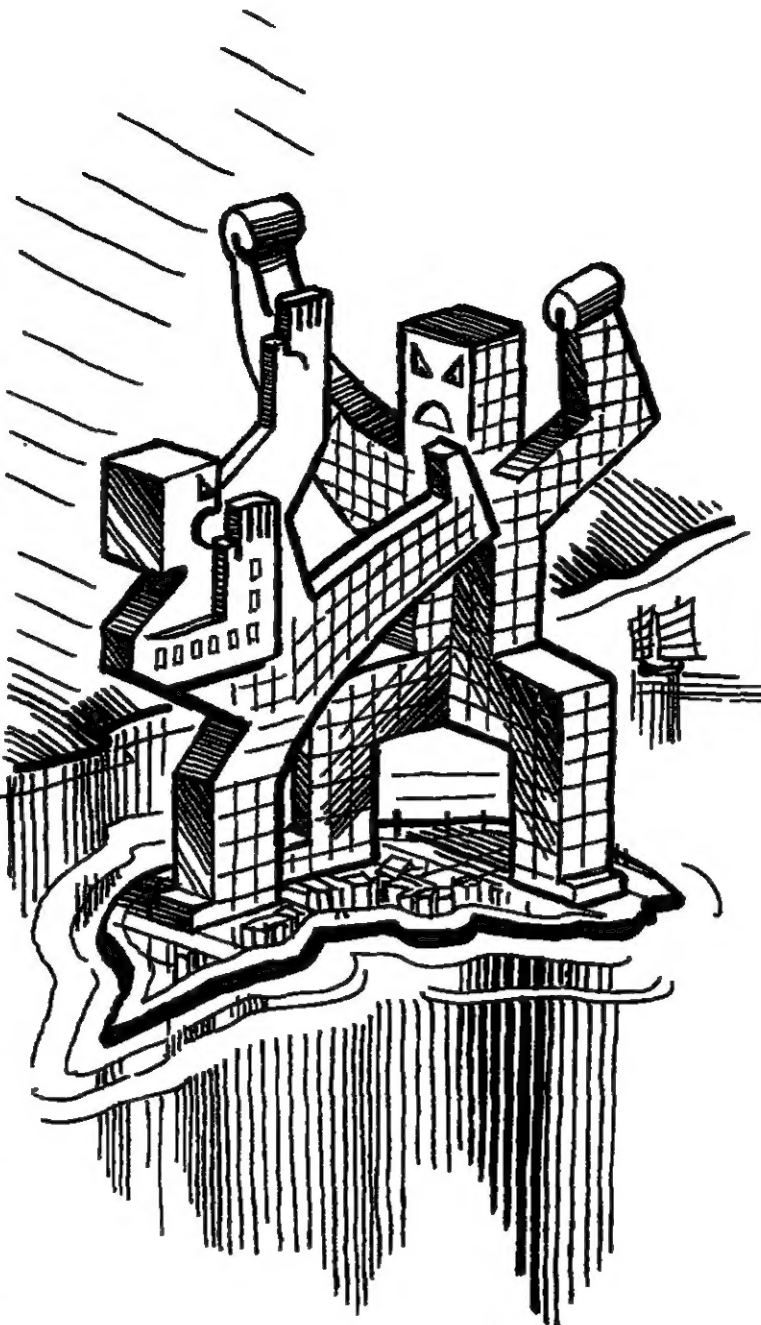
But financial services alone will not alleviate the primary concern among producers — a dwindling supply of labor and high interest rates. High inflation has forced the Finance Ministry to tighten credit, which has notched up the operating costs of small to midsize businesses, which dominate Taiwan's manufacturing base.

The government is also reluctant to ease credit rates because of the propensity for cheap money to find its way back into the stock market, analysts said.

"The credit crunch is really hitting the small companies, but it's hard to ease the money supply here without the cash going back into the market," said an analyst with an overseas bank.

Wage rates have spiraled, and many factories are operating at 60 to 70 percent capacity because of the shortage of labor. Compound-

Continued on page 8



Taiwan's quality of life has become a victim of the industrial boom that fueled its economic miracle.

## Dealing With the Costs Of Runaway Growth

By Steve Glain

**T**AIPEI — Money isn't everything. Just look at Taiwan. With an estimated \$72 billion U.S. in foreign reserves, Taiwan ranks as the second wealthiest nation in the world. But money alone cannot help Taiwan's social and political structure keep pace with years of runaway economic growth.

Residents of Taipei, the capital city, have little to show for enduring grueling inflation rates.

With no public transport system for a city of 2.7 million people, rush hour traffic is considered the most paralytic and hazardous in Asia. Unfettered industrial expansion has turned the country's major cities into toxic dumps. Violent crime, unheard of only a few years ago, has reached alarming proportions.

Worse, Taiwan's domestic problems have reached a head at a time when the government and its people are wrestling with an acute identity crisis that threatens to undermine Taipei's de facto independence from China.

Since 1949, when the Communists drove Chiang Kai-shek's forces across the Formosa Strait, the two governments have claimed dominion over China.

Against the backdrop of Taipei's "three-nos" policy — no contact, compromise, or negotiations with the mainland — the two Chinas have concentrated on their own affairs while holding out for eventual reunification.

**F**U HU, a professor at National Taiwan University and a delegate at the National Affairs Conference, said: "Taiwan and China are just like the moon and the Earth. It's hard to keep them separate, but each has its own orbit, its own domain. This dynamic relationship demands its own special order."

In 1987, Taiwan began dismantling the autocratic rule imposed by the Chiang dynasty in favor of more representative government. That evolution was reaffirmed last month, when President Lee Teng-hui, an advocate of political change, consolidated his control after a stormy presidential election.

The election results dimmed the influence of the government's aging right wing, which transplanted the ruling Kuomintang Party in Formosa after the war and has stubbornly refused to leave the political arena.

Conservative leaders fear that Mr. Lee, an aloof but generally popular technocrat, could waver over the issue of reunification with the mainland. As Taiwan has become more prosperous, its young people more outspoken, and the mainland govern-

ment more brutal, calls for reunification have been obscured by a growing demand for independence.

By taking the initiative early, Mr. Lee shrugged off a surprise challenge for the presidency from within Kuomintang ranks, then exploited his resources as an incumbent to secure his election from the National Assembly.

The intense political maneuvering was upstaged by protests — some violent — by voters demanding more representative democracy and the dissolution of the National Assembly. Most assemblymen are aging Kuomintang members who still claim to represent mainland constituencies, and are increasingly out of touch with Taiwan's affairs.

The demonstrations peaked when thousands of students occupied Chiang Kai-shek Memorial Square to demand constitutional change.

**A**LTHOUGH the assembly conjured up settling memories of Tiananmen, the protesters left quietly after Mr. Lee promised to hold a conference on national affairs in July to cobble together electoral changes.

By defusing a potential crisis so quickly after his re-election, Mr. Lee has congealed his position between an enervated old guard and a vocal but divisive left wing. But popular discontent with the electoral process and Taiwan's relationship with the mainland is expected to rumble again during the conference this summer.

Although surveys indicate that most Taiwanese are satisfied with the country's de facto independence, the drive for a formal separation has gathered enough steam to pressure the government into clarifying its relationship with the mainland. But it is just such a high-level proclamation that official Taiwan wants to avoid.

Beijing has stated repeatedly that it will invade Taiwan should it declare independence, or if the situation becomes so unstable that the mainland would feel obligated to intervene. Although it is unknown how the mainland defines instability, several analysts said a constitutional overhaul could provoke fears from Beijing that Taiwan was slipping, unacceptably close to bourgeois-inspired anarchy.

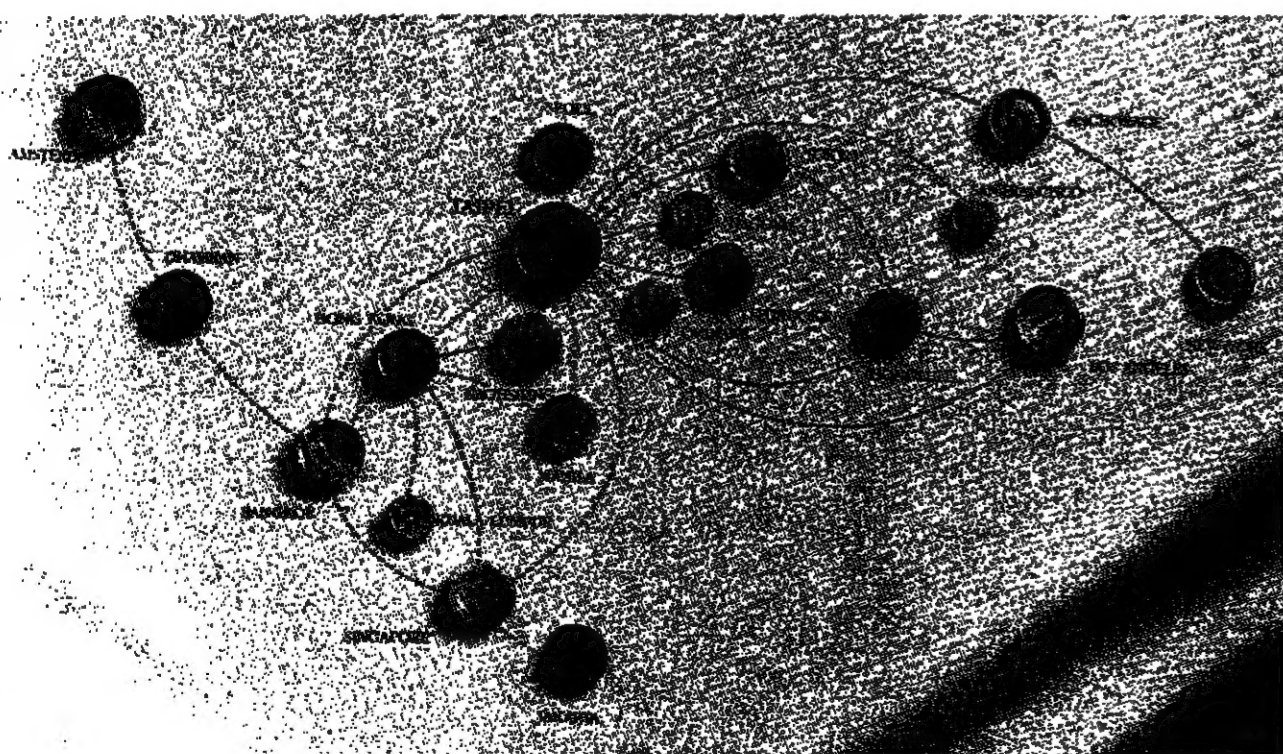
The threat of mainland intervention seems all the more palpable with the approach of the first anniversary of the tragedy around Tiananmen Square.

"The Beijing government has already demonstrated it doesn't care that much about what the world thinks of its actions," said an analyst with a Hong Kong-based securities firm.

Even if the government can somehow reform itself without provoking the mainland, it faces over-

Continued on page 9

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# A Matter of Time: Trade Across the Strait

By Steve Glain

TAIPEI — For many of Taiwan's restless investors and manufacturers, the antidote for the economy's growing pains lies 100 miles across the Formosa Strait.

Behold China, one of the world's largest sources of cheap labor and raw materials, and coveted by Taiwanese producers who have been jacked by rising inflation and high manufacturing costs in their own country.

Faced with a limited domestic supply of natural and human resources, Taiwanese investors and manufacturers have been forced to plumb other markets. Last year, Taiwan replaced Japan as the largest source of investment in Southeast Asia and has been actively promoting joint venture agreements with U.S. petrochemical and electronic firms.

But analysts agree that China offers Taiwan's manufacturing sector and investors the greatest potential.

"If it's done right, you could continue to do business in Taiwan as it has been done for the last 20 years on a broader scale," said E.M. Williams, Citibank's country manager.

Direct trade and investment between the two Chinas remains a fundamental pillar of the nonrecognition policy. But most analysts and some government officials acknowledge that Taiwanese investors are coming to the mainland's virgin markets. Several analysts estimate Taiwanese investors injected \$1 billion into mainland businesses in 1989.

The benefits of direct trade and investment between the two Chinas are obvious. Taiwan would offer its technology and capital in exchange for raw materials, cheap labor and looser environmental regulations. Fujian province has been widely touted as the fulcrum for Taiwan-mainland trade because of its proximity and common language, given the Fujian roots of many Taiwanese families.

AT THE END of last year, the number of Taiwan ventures in Fujian totaled about 490 with a value of about \$700 million. In the first three months of this year, Taiwan investment in Fujian rose more than \$300 million to \$1.24 billion.

Total indirect trade between China and Taiwan — most of which goes through Hong Kong — reached \$3.2 billion last year, up 28 percent from the previous year. Taiwan's exports to the region totaled \$2.8 billion, while imports reached \$600 million, according to Taiwan's board of trade statistics.

Those figures, which are deceptively low given the increasing level of unofficial direct trade, make Taiwan China's seventh-largest trading partner.

Most analysts agree Beijing and Taipei will eventually agree on some kind of arrangement that would allow direct trade without trampling on each other's claim to sovereignty.

"The official policy is no contact, but people know there are hundreds of cases where that isn't the case," said David T.C. Lin, deputy



A petrochemical complex on Taiwan.

executive director of the state-funded China External Trade Development Council. "Most people understand it's a matter of time."

NO ONE understands that better than industrialist Y.C. Wang, the founder of the petrochemical giant Formosa Plastics Group, who appears to be setting his own timetable for mainland Taiwan trade and investment links. Early this year, the Taiwanese-born Mr. Wang visited China's Fu-

jian and Guangdong provinces, where he met the provincial governors and discussed trade-related issues. Since his return, rumors and local news reports suggest he has signed a lease to build a petrochemical plant and port facilities on Hai Tang Island.

Such a venture would fuel local demand for free-trade zones on the mainland, widely considered to be the best way to sidestep the diplomatic minefield regarding direct contact between the two Chinas.

A free-trade zone would raise problems over who hires and fires employees, convertibility of foreign exchange, arbitration procedures regarding trade disputes, and customs regulations. But analysts said the logic and growing necessity of such a plan would overwhelm any technical difficulties.

"A free-trade zone would give both sides a means of monitoring the level of trade, but it wouldn't change the political situation that much," said Jeff Toder, an analyst with Jardine Fleming Taiwan Ltd.

Moving manufacturers to the mainland has its political risks, said Citibank's Mr. Williams. "And as their upstream suppliers follow, the risks get higher."

Many government officials in Taiwan are also worried that forging links with the mainland will enhance China's bargaining position over other issues, such as reunification, analysts said.

The mainland has already disrupted one of Taiwan's top trade priorities — entry into the General Agreement on Tariffs and Trade.

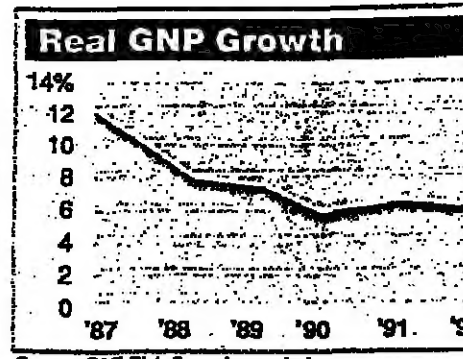
Taiwan Foreign Trade		
Annual Percentage Growth (US\$ basis)		
Year	Exports	Imports
1985	0.89	-8.46
1986	29.69	20.21
1987	34.54	44.67
1988	13.01	42.05
1989	9.28	5.26
1990*	5.66	9.52

\*Government projections

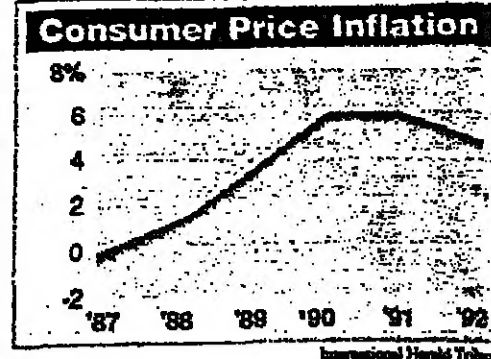
Taiwan, which has the 13th largest economy in the world, applied for a seat on the GATT in January and a decision has yet to be reached.

Government officials and private analysts in Taipei blame China for intimidating GATT members from endorsing Taiwan. Even the United States, originally a strong supporter of Taiwan's application, has backed away because of the diplomatic implications at a time when Sino-U.S. relations have plummeted.

"The response from many of the contracting parties is that they would like to see us in the GATT," said Ke-sheng Sheu, director general of Taiwan's board of foreign trade. "But many of them have diplomatic relations with China and fear a conflict."



Source: P&amp;E Risk Consultancy, Ltd.



International Herald Tribune

## The Threat of Capital Flight

Continued from page 7

ing the problem is a growing brain drain of talented young people, who are leaving Taiwan's pollution, rising crime rates and congestion for better opportunities abroad.

THE result has been a surge of capital outflow, as businessmen search overseas for new investment options. Since 1988, when the government eased restrictions against investing overseas, Taiwan has experienced a net capital outflow of nearly \$2 billion. In 1987, the country posted a net capital inflow of \$4 billion, largely because of the appreciation of the New Taiwan dollar.

Petrochemical firms lead the exodus, as much to escape Taiwan's mushrooming environmental movement as to seek cheap labor. Pollution in Tai-

wan's urban areas has become intolerable, and residents have forcibly stopped operations at some factories.

"The petrochemical industry is at a standstill," said an analyst at an overseas investment firm. Efforts to untangle Taipei's hellish road network and rid the streets — and sidewalks — of toxic motor vehicles will top the government's agenda for the next five years. Taiwan's fiscal 1991 budget is 22 percent larger than the previous year's, largely because of public works expenditure.

Because of the size of the proposed subway project, the cost of which is estimated at \$725 million, government spending is expected to sustain economic growth despite the anticipated decline in exports. However, construction will cause nightmarish bottlenecks and the government is nervously preparing for what has already been dubbed Taipei's "period of darkness."

Steve Glain

## Asia Link Worth \$8.3 Billion

TAIPEI — Officially barred from direct trade and investment in mainland China, Taiwanese manufacturers have turned to the next best source of cheap labor and production costs — Southeast Asia.

According to Taiwan's board of foreign trade, total trade with Thailand, Indonesia, the Philippines, Malaysia and Singapore reached \$8.3 billion in 1989, up 13.6 percent from \$7.3 billion in 1988.

Taiwan maintains a trade surplus with all Southeast Asian countries except Malaysia, which has posted brisk sales of computer chips for Taiwan's own electronic industry.

As a percentage of Taiwan's total global trade, Southeast Asia accounted for nearly 40 percent, in 1989, compared with 33 percent from the U.S. and 22 percent from Japan.

Taiwan investment in Southeast Asia skyrocketed in 1989, rising nearly four times to \$296 million from \$59.1 million in 1988, according to figures from Taiwan's Industrial Development and Investment

Center. Last year, Taiwan replaced Japan as the largest single investor in the region.

The exodus of Taiwan funds began in mid-1988, when the government relaxed restrictions aimed at keeping New Taiwan dollars in the country. Under new regulations, a single investor is allowed to remit

labor. About 10 percent of Taiwan's manufacturing plants have been forced to close, largely because of the stronger currency.

One reason that Southeast Asia is popular among Taiwan's businessmen is because of the liberal foreign ownership rules. Generally, an overseas investor can own

Regional trade nearly 40 percent, in 1989, compared with 33 percent from the U.S. and 22 percent from Japan.

up to 5 million New Taiwan dollars overseas.

The move came none too soon for Taiwan's manufacturers. In the last three years, the New Taiwan dollar has appreciated about 40 percent, and producers are being slowly squeezed by rising wages and high borrowing costs.

As a result, many factories are operating at only 70 to 80 percent capacity, because of the shortage of

100 percent of a Southeast Asian company if all, or most, of the product is designed for export. The lone exception is the Philippines, which limits foreign ownership of a domestic firm to 40 percent but allows total ownership if the overseas investor introduces new technology to the country.

Southeast Asia has welcomed Taiwan's investment for diplomatic as well as economic reasons. Although most governments in the region would like to recognize Taiwan, they also want to avoid upsetting China. Thailand and the Philippines, in particular, are vulnerable to communist insurgencies that are fueled in part by the mainland.

Commercial exchange with Taiwan helps Southeast Asian nations galvanize relations with Taiwan without having to acknowledge it as the true China. In return, Taiwan can expand its role as a global trading nation, which will help support its application to join the General Agreement on Tariffs and Trade.

Steve Glain

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## Taiwan: Rich but Uneasy / A Special Report

## Global Value-Added Craze Adds to Computer Industry's Doldrums

By Chris Brown

TAIPEI — The current lull in the computer business worldwide has left the industry in Taiwan a bit uneasy. The basic issue is that Taiwan has finally reached the point where engineering alone cannot solve all its problems.

Professionals in Taiwan's high-tech sector are beginning to hit roadblocks that were not so pressing two years ago. They point to rising land prices, a scarce labor pool, supply bottlenecks and marketing troubles overseas.

It's the same list of problems that confronts every computer exporter, but in Taiwan's case, the doldrums are spread over a much larger base of companies. There is no IBM or Sony here, nor for that matter a Dawwoo or a Samsung.

Worse yet, it is now starting to look like South Korea and Japan — with their conglomerates — may be better placed to take off once the computer business picks up steam again.

"Before, we could never understand how far we were behind the developed countries. At our level now, we can finally understand it," says Otto Lin, president of the Industrial Technology Research Institute (ITRI), Taiwan's premier research and development body.

Last year, Taiwan's computer industry exported some \$5.2 billion worth of equipment, a 49 percent growth rate over the previ-



Assembling computers at a multitechnical corporation.

ous year. This is lackluster performance, compared to the industry's 80 percent growth in 1987, and 35 percent growth rate in 1988.

Like the computer industry worldwide, Taiwan is currently caught in a value-added craze. Companies in Taiwan are looking to boost their profit margins, especially on products that have become commodities, like personal computers. Taiwanese PC companies report that profit margins on low to medium PCs have bottomed out at 2 to 5 percent now, down from 5 to 10 percent two years ago.

But a step upmarket is risky. On the engineering side alone, it is simply a lot easier to produce low-end PCs than high-end workstations. Furthermore, adding value to computers is usually done with software or networking, areas in which Taiwan has never been strong.

Software is a particularly sore point. Taiwan is still lagging with the United States over intellectual property rights. March brought the first legal actions against a Taiwan clone of the Apple Macintosh, and April brought similar raids against two companies for

using copied software. Taiwan software firms are typically concentrated in a few niche markets, like computer chip design and securities trading.

To Taiwan, adding value means higher-end PCs, plus a few new products. Medium to high-end laptop computers should begin streaming forth starting in the third quarter. High-resolution monitors are also due out about then.

The problem with judging the health of Taiwan's computer industry is that there are only a handful of major firms. Acer

Group, Taiwan's premier computer company, ended last year with an unaudited sales total of \$702 million, but revenues dipped to only \$5.6 million after a sluggish market and a series of investments.

Mitac International, the No. 2 computer firm, ranked in \$170 million in revenues, a growth of 25 percent over 1988. Projected sales for this year are \$210 million.

The big surprise was the Taiwanese buyout of the U.S. firm Wyse Technologies. Wyse, which owns half the market worldwide for computer terminals, offers Taiwan investors a chance to get their hands on an established sales network.

For a firm like Mitac, with a minority share of Wyse, this could be a vital channel for PCs made under the Wyse label. Mitac has minimal presence in the U.S. market, where Wyse is strong.

The Wyse buyout has clearly established a trend in Taiwan toward mergers, especially as a means of boosting sales and design. In March, Microtek, a computer peripherals maker, bought into C-Cube Systems of the U.S. to develop video technology. Acer last year acquired a U.S. peripherals company and merged with its West German distributor. It also signed a \$250 million joint venture with Texas Instruments to produce memory chips in Taiwan.

Just about everyone here recognizes that sales and service will be the cornerstone of the next industry upturn. Worldwide the com-

puter industry has not yet sorted out the issue of standard operating systems, especially for mid-range computers. At the PC level, the dream of easy-to-use windowing software for the IBM-compatible crowd is still a year or so away. All of this tends to leave Taiwan in limbo.

The bright spots here are still in research. ITRI, which is partly government sponsored, continues to spin off its technology and staff to help start-up firms. The latest venture is hard disk drives for personal computers. The technology has been in the ITRI labs for the

last six years, and the first production should begin in the third quarter.

Memory chips are another budding technology. Early this year the Ministry of Economic Affairs handed ITRI an undisclosed amount of cash for a five-year catch-up course in DRAM memory production. By 1994, ITRI and a consortium of Taiwanese firms hope to bypass the entire first cycle of memory chips that are now in use today.

The latest talk in Taiwan is about liquid crystal display technology, which is vital for laptop

computer screens and defer electronics. Other research includes satellite technology backed by a \$400 million five-year grant, and even superconductivity. But all the research still points to a need for a new kind of strategy in Taiwan. In the past the country has been able to rely on spillovers from ITRI, and mass market products. Now the feeling is that many firms here will either find a niche or perish.

CHRIS BROWN is a Taipei-based writer who contributes regularly to Computerworld magazine.

## Amid Hothouse Growth, Mushrooming Crime

By Paul Mooney

TAIPEI — It was 10 A.M. and the lobby of Asia Securities, a Taipei securities firm, was crowded with investors on their way to the trading floor.

Suddenly several gunshots rang out, sending frightened investors scattering for cover. A man fell to the floor bleeding profusely as two men scooped up \$35,000 in cash, speeding away seconds later on a motorcycle as bystanders looked on in horror.

The man was the fifth person shot and killed in Taipei that morning in the opening hours of the latest national crackdown on crime.

Taiwan's rapid economic development is being followed by an even more rapid increase in crime that is making incidents such as this almost a daily occurrence.

In 1989, more than 6,000 violent crimes — murders, kidnappings, rapes and robberies — were committed around the island, for a 22 percent increase over 1988. According to a recent survey, crime is now the No. 1 concern among people in Taiwan.

Abductions rose to 130 last year, up 36 percent over the previous year, with most of the victims children or teen-agers. This new trend has made children afraid to talk to strangers, and some parents have even hired university students to walk their children to and from school.

"Some friends tell me they don't want to have kids because they can't guarantee their safety," says one cabinet official.

Businesses are among the main victims as gun-toting gangsters have begun extorting "protection money" from companies. According to a survey conducted by the Economic Ministry's Medium and Small Business Administration, 32 percent of medium- and small-businessmen reported being threatened by gangsters.

Another survey conducted by

the National Police Administration shows that 10 percent of major companies have been the target of extortionists.

Actual figures could be much higher, say police, since many companies are afraid to report such harassment, preferring to pay the money.

Chang Yung-fa, chairman of Evergreen Group, which includes

Abductions rose to 130 last year, up 36 percent over the previous year.

the world's largest container line, paid \$1.9 million last December for the safe return of his son from kidnappers. Although the abductors were soon captured and were given death sentences, the case caused panic among local businessmen.

Wang Yung-ching, chairman of Formosa Plastics, the island's largest industrial conglomerate, cited worsening social stability as one of the main reasons for declining domestic investment and for his decision to travel to mainland China earlier this year to investigate the investment climate.

The wealthy are now shunning expensive items such as Rolex watches and the Mercedes-Benz — until recently popular symbols of Taiwan's new-found wealth — because such flashy possessions often make them the target of gangsters.

One businessman driving a Mercedes-Benz barely escaped an ambush on the road from a golf club one day, only to be gunned down in front of his house the very next day. Luxury car importers reported plummeting sales at the end of last year.

Many of these serious crimes have been committed with guns smuggled into the island. In 1989, 9,675 guns were seized by police,

690 of which were Red Star and Black Star pistols brought in illegally on fishing boats from mainland China. According to police statistics, 94 people were killed with guns last year, with mainland-made guns used in 89 of the murders.

Shootings have become so common that Chang Gung Memorial Hospital in Taipei County, which is now treating an average of eight bullet wounds a month, recently held a seminar to train surgeons how to treat gunshot wounds.

Chuang Hang-tai, director of the NPA's Bureau of Criminal Investigation, announced earlier this year that about 50 percent of the violent crimes and larceny that occurred last year were committed by people between the ages of 12 and 20.

Police in April smashed a juvenile crime ring, arresting 19 sus-

pects believed to have been involved in no less than 39 major crimes, including murder, rape and robbery. Stolen property and cash worth more than \$191,000 was seized by the police. The youngest of the arrested was only 14 years old.

Experts point to the lack of moral education in the schools today, which concentrate on more practical subjects to get their students through the island's extremely competitive examination system.

More important, however, is the excess money floating around the island in recent years.

According to police officials, about two-thirds of the violent crimes committed last year were money-related.

The government's response to the rise in crime has been harsh. According to a report released by

the Supreme Court, a record 68 death sentences were handed out in 1989, up sharply from the previous average of nine per year, and an indication, said the court, of the "serious deterioration" in the island's social order.

Hsieh Chang-tung, an opposition member of the Legislative Yuan, says that while he is opposed to the lifting of gun controls, if the situation continues to worsen the government should consider the possibility.

While Interpol statistics show that Taiwan is relatively safe compared to more industrialized countries, with only 333 crimes committed per 100,000 people in 1989, the rise in crime is encouraging more and more people to flee the island.

PAUL MOONEY is free-lance journalist based in Taipei.

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## Runaway Growth

Continued from page 7

whetting domestic challenges.

Taiwan's quality of life has become a victim of the industrial boom that fueled its economic miracle. The landscape surrounding Taipei looks more Dickensian than suburban. Smokestack factories mingle with corrugated steel housing. Sunsets are smudged out by the smog. The air around Taipei and southern Kaohsiung regularly exceeds the minimum acceptable pollution levels. Much of the pollutants come from the swarms of motor scooters and automobiles that urban residents are forced to use in the absence of adequate infrastructure.

The government has already started an ambitious underground mass transit network in Taipei, but construction is expected to disrupt the city for the next five years, according to analysts.

Despite its shortcomings, Taipei has become one of the most expensive cities in the world because of an acute labor shortage and the steady appreciation of the New Taiwan dollar. Rents have skyrocketed and most young executives are faced with long commutes to cities.

Taiwan's economic boom has also generated excessive wealth, and the inevitable friction between lower and upper classes. As crime has risen, Taiwan's well-heeled have been shocked into assuming a less glitzy life-style. Luxury automobiles, once a key trapping of the status-conscious, have become beacons for kidnappers.

Faced with such a low standard of living at such high prices, many overseas corporations are reas-

praising their commitment to Taipei. Taiwan's bid to become a financial center on a par with Tokyo, Hong Kong and Singapore is quickly dismissed by foreign executives.

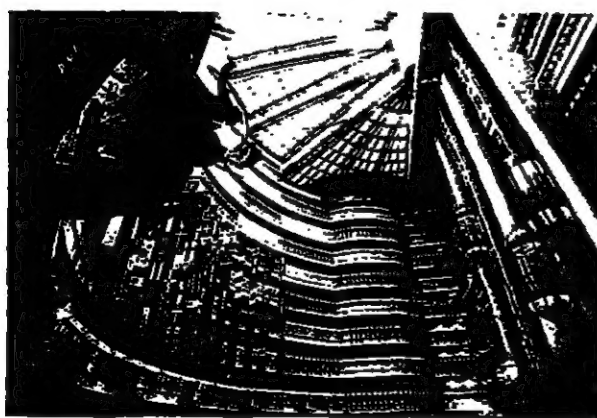
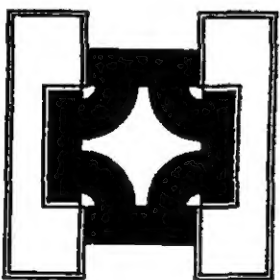
"It would take at least a decade for Taipei to be another Hong Kong," said an official with a U.S.-based bank here. "There's no way they would attract the professionals needed to do it. The government thinks that just because Taiwan has been successful at selling exports, it can do anything it wants. But that's just not the case."

The buzzword among analysts and public officials here is "consensus." Before Taiwan can proceed with confidence as an international entity, for example, it must forge a consensus with Beijing. Cleaning up the environment requires consensus between residents who will not tolerate a petrochemical plant in their neighborhood and the producer who cannot afford to relocate. Quelling discord between Taipei's various political factions is impossible without consensus on such issues as reunification, presidential power and the electoral process.

Consensus in Taiwan can be painfully slow to reach, even in the best of times. And many Taiwanese expect the situation to worsen before it improves.

"We are in a crisis," said Michael Chang, president of Global Capital Management Co. Ltd. "Industrial activity is slowing down, crime is up, pollution is bad. It's like wartime."

STEVE CLAIN is the International Herald Tribune's correspondent in Hong Kong.

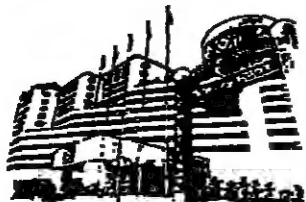


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# Environmental Disaster Worsens

By Eric Flamm

TAIPEI — For residents in the smog-shrouded city of Taipei, living in a polluted environment is a daily reality. The quality of life is declining as the city's air pollution worsens. Motorists and commuters commonly wear gauze masks in hopes of protecting themselves from the severe air pollution that hangs over the city like a brown curtain.

Until recently, Taiwan has not paid much attention to its environmental problems, having

achieved a state of affluence. But local citizens are now voicing concern as pollution levels continue to escalate. Taiwan's severe pollution is not confined to the air. Garbage, sewage and industrial waste all pose serious problems as the country pays the price of its "economic miracle" that transformed it from a less-developed agricultural nation into a newly industrialized country in a few years time.

Many of Taiwan's mounting environmental problems can be attributed to a high population density. The Republic of China has approximately 20 million people

and the 35,824 square kilometers of the main island is slightly bigger than the combined area of Massachusetts, Rhode Island and Connecticut together.

Population density in 1986 was the second highest in the world, with 538 persons per square kilometer. Mountainous terrain, which takes up over two-thirds of the island's land mass, crowds industrial and residential areas into the valleys and basins whose geological configurations often serve to trap polluted air.

In Taipei, 90 percent of air pollution, sulfur oxides, nitrogen ox-

ides, and carbon monoxide, are consumer generated and come from cars and motorcycles. Taiwan boasts the highest per-capita ownership of motorcycles, with one in every three people having one.

Dependence on the two-stroke motorcycle is a major source of unburned hydrocarbons; the cumulative effect of emissions from Taipei's motorcycles contributes more to harmful air pollution than automobiles. As the island's traffic continues to worsen, the popularity of motorcycles shows no sign of waning. Small 125cc motorcycles and scooters provide cheap and convenient year-round transportation in Taiwan's sub-tropical climate.

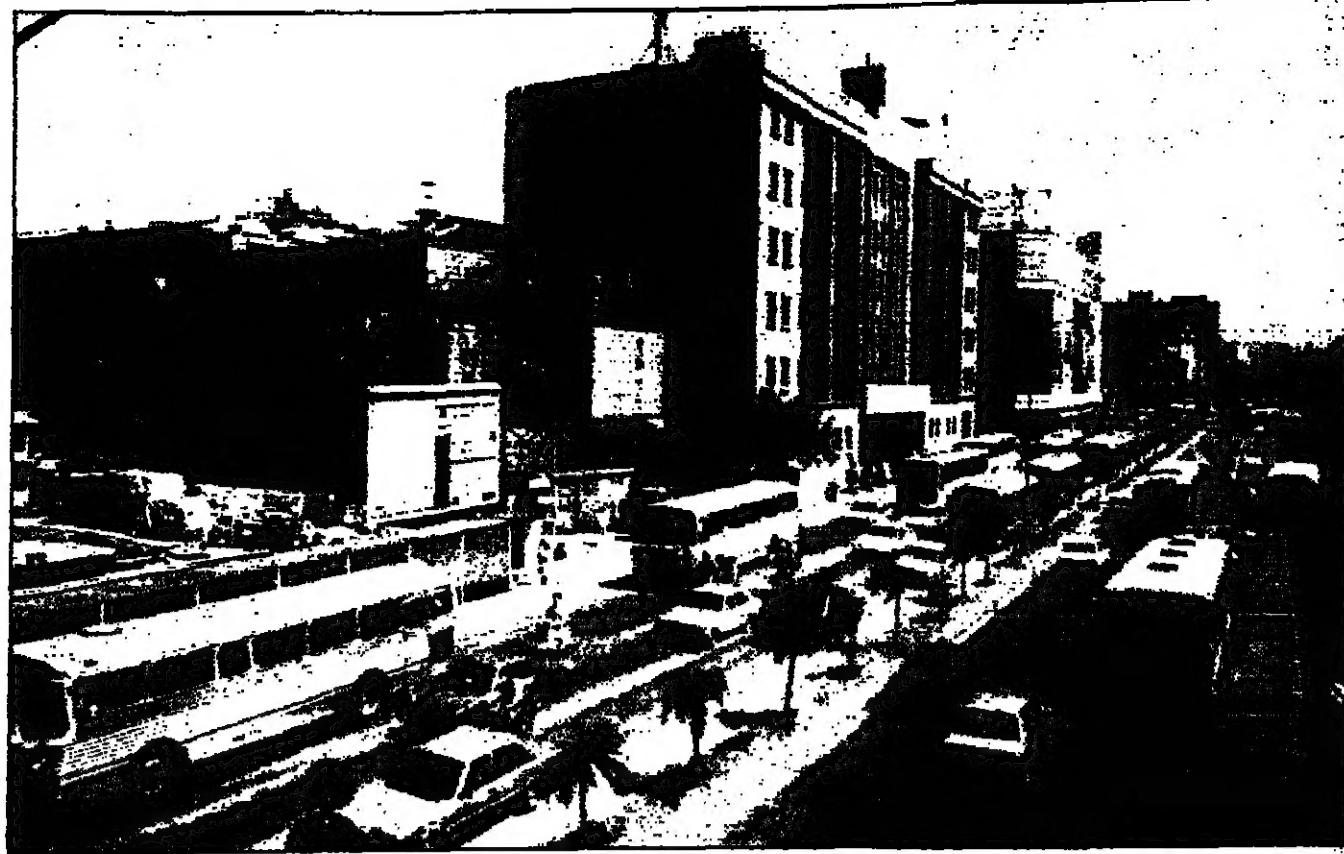
Despite the often gridlocked traffic in Taipei and a severe shortage of public parking spaces, car sales are booming with an estimated 8,000 to 10,000 cars sold each month just for the city area. The substantial increases in per-capita income in the past three years, lowered import tariffs, a mature local automotive industry and reduced gas prices all have resulted in more vehicles on the road. For Taiwan's newly arrived middle class the car remains an important status symbol even if it is impractical to drive in the city.

In an attempt to remedy the oppressive traffic and air conditions of Taipei, the city is in the process of building a subway system. Many consider this step an action taken too late to have a significant bearing on the city's overabundance of vehicles. The first stage will be finished in 1993 and the optimistic forecast for completion of the entire system is at the close of the century.

Responding to a growing public voice that the government take action for the deteriorating quality of the environment, in 1987 the Taiwan Environmental Protection Administration (EPA) was established to create national standards for consumer and industrial waste.

Prior to 1987, the provincial government was responsible for regulating factory discharge and waste disposal. Lacking cohesive national emission standards as well as resources for enforcement, the provisional government's environmental policies were at best irregular and at worst grossly inadequate.

A scientific adviser to the EPA, Kan-Nan Chen, attributes the severity of current pollution levels to the government's previous laissez-faire attitude toward environmental protection. "In the past few years the government has emphasized economic growth at the ex-



Buses, automobiles and two-wheelers compete for space on Zhong Hua Road in Taipei.

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pense of adequate pollution standards for industry," he said.

Although the EPA now may be imposing strict emission standards, catching violators, especially small and medium-sized businesses, still proves difficult. Dr. Chen expressed concern that a significant number of small businesses are not licensed by the government and are therefore completely unregulated. Even licensed businesses with waste disposal systems have been caught exceeding emission controls.

To increase adherence to EPA policies, the agency has undertaken covert means to crack down on violators. While mounting surprise late-night visits to industrial factories last September, EPA agents found companies storing untreated waste water by day and releasing it by night. The agents also discovered that some factories maintained unreported effluent discharge lines in addition to their legal discharge points. These firms would give inspection agents samples from the clear, treated water while secretly releasing untreated waste from the illegal point.

Over the past six months, EPA officials inspected about 250 factories and waste-water treatment facilities, of which nearly 75 percent were found in violation of current EPA standards, said Edward M.Y. Wu, director general of

the Bureau of Water Quality Protection of the EPA. As a result of such investigations the EPA has made sweeping revisions of effluent standards set in 1987 for city, village and town sewage and industrial waste water in an attempt to curb the haphazard waste treatment of environmental polluters.

In order to meet increasingly strict emission controls, Taiwan industries must invest in new equipment or upgrade existing facilities. Engines of Taiwan's economy, such as the electronics industry, are now besieged by heavy competition, soaring labor costs and a strengthening New Taiwan dollar and cannot raise the cost of their products to fund investment in waste-processing systems. In response, the EPA is offering financial assistance to help companies meet emission control standards: Low-interest loans and duty-free imports for pollution control equipment that cannot be purchased locally are designed to

make environmental protection not such a bitter pill to swallow.

Investment in pollution control equipment is expected to be sizeable as more companies are forced to realize that the "good old days" of relaxed pollution control are over. EPA statistics indicate that in the next 10 years investment in pollution control technology will be \$40 billion. Presently, Taiwan looks abroad for the majority of its

tests have greeted the plastic tycoon Y.C. Wang and his Formosa Plastics Group (FPG) over the past two years and have thwarted his attempts to build a naphtha cracker — a facility creating the basic polymers for plastics and other petrochemical products.

Local environmental coalitions in two areas rejected Mr. Wang's assurances of a safe, clean facility. Mr. Chen considers a properly managed naphtha cracker not a major threat to the environment but understands why people tend not to trust the FPG. Mr. Chen compared FPG's reputation for environmental protection to that of Union Carbide after the Bhopal incident saying, "The people don't understand, but they remember the name."

Taiwan's worsening environmental conditions are forcing companies to realize that they can no longer rely on potentially polluting industries to achieve the same rate of economic growth as experienced in the past.

ERIC FLAMM is a writer based in Taipei.

In Taipei, 90 percent of air pollution, sulfur oxides, nitrogen oxides, and carbon monoxide, are consumer generated and come from cars and motorcycles.

high-technology pollution control equipment with 65 percent of sales coming from foreign companies.

Citizens living near industrial centers have become increasingly irate as the pollution problem worsens, often banding together to state protests over proposed industrial building sites. Such pro-

## Stocks: Gambling On the Big Burst

By David Huynh

HONG KONG — Cashed-up punters in the casino-like Taiwan stock market used to battle for a slice of the action in the red-hot bourse. Nowadays, most scramble for the right moment to flee before the stock bubble bursts.

And according to many economists and stock analysts, the eruption is high.

The highly speculative market built up a head of steam in recent years, fueled almost solely by a huge pool of idle funds accumulated from years of record economic growth and trade surpluses.

But as Taiwan's political and economic scene deteriorated in recent months, increasingly sophisticated local investors and fund managers looked elsewhere to spread their portfolios.

The result has been a great leap in capital flight to developing Asian markets like China, Thailand, Malaysia, Singapore, the Philippines and Hong Kong in search of foreign stocks. This drained the Taiwan economy of idle liquidity — the lifeline of its volatile stock market.

"It's because of the capital outflows that the stock market is performing so poorly recently," said analyst Benjamin Chen at Baring Securities Ltd. in Taiwan.

Official figures showed average daily capital outflow reached \$122 million in March, up sharply from \$33 million in February this year. Daily outflows so far this month are estimated to be averaging even higher, at more than \$125 million dollars.

The Taipei Weighted Index, the stock market's main barometer, plunged more than 25 percent in two months amid political jitters caused by violent protests during the presidential elections in March and accelerating capital flight.

The index fell from a height of about 12,590 points in early February to the present 8,800-point level. Daily turnover has trickled down to an average of around 80 billion New Taiwan dollars in the past weeks from about 150 billion during better times.

"In the immediate term, this market could fall to around 7,000 or 8,000 points before finding support. This also depends on how other world markets perform," Mr. Chen said.

Analyst Jesse Tam at Ting Kong Securities agreed: "Over the past few years, this market has been pushed up by idle monies. Now these monies have gone abroad, we can't expect the market to return to 10,000 points in the foreseeable future."

"Whether the Taiwan market will stabilize in the future depends highly on the pace of capital outflow and how quickly local interest rates will come down," said another analyst.

Taiwan's commercial banks'

prime lending rates are currently at 10.5 percent, while short-term time-deposit rates are about 9 percent. But foreign banks in Taiwan charge primary customers as much as 14.5 percent.

The Central Bank of China moved to ease monetary policy this week by buying back more than 30 billion New Taiwan dollars worth of government paper and cutting overnight rates in the interbank market to around 12.5 percent from 13.25 percent.

But according to a report published by the Hong Kong-based

### Short Term Capital Movements

In millions of U.S. dollars.	
1986	Credit: 1,421
1987	Credit: 4,013
1988	Debit: 1,481
1989	Debit: 494

Source: Central Bank of China

Political and Economic Risk Consultancy Ltd., nothing short of a major overhaul of labor and wage policies would resolve Taiwan's problems.

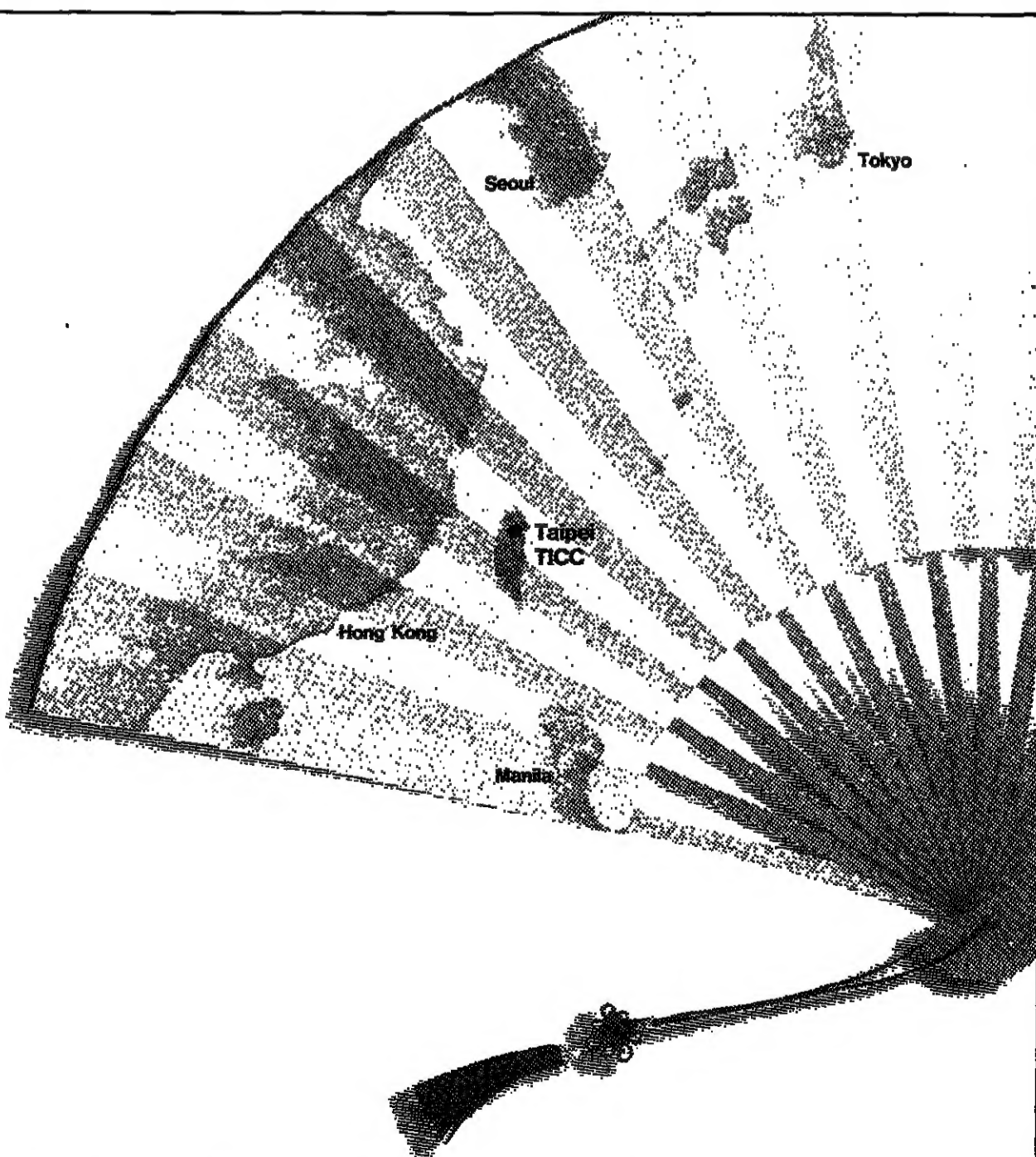
The island nation of 20 million people recorded its first trade deficit in two years in February, signaling an end to the big-surplus era, economists said. The trade shortfall totaled \$320 million in February, against a surplus of 690 million a year earlier.

Many economists are forecasting that Taiwan's current account surplus will shrink by around \$2 billion in calendar 1991 from this year's estimated \$7 billion. The cause is a combination of improved performances in Korea and China, two countries that compete with different ends of the quality spectrum of Taiwan's exports in world markets, and the local "speculation syndrome" — a sharp decline in the work ethic with rising numbers of people choosing to speculate on stocks, real estate and in the futures market rather than to work.

"This speculative syndrome is clearly self-destructive. If industry stops earning the dollars that drive the stock, share prices must fall. The encounter with reality is not far away," the Political and Economic Risk report said.

The speculative syndrome is also causing a sharp fall in business investment, it said. There is little point for entrepreneurs to ponder new investments earning 20 to 30 percent a year when they could make three to four times that on the stock and futures markets.

DAVID HUYNH is the Hong Kong-based senior correspondent for Knight-Ridder Financial News.



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# Herald Tribune BUSINESS/FINANCE



MONDAY, APRIL 30, 1990

Page 1

## EUROBONDS Inflation Fears Augment Seasonal Market Jitters

By Carl Gewirtz  
International Herald Tribune

PARIS — Financial markets are suffering more than just seasonal nervousness in the run-up to next week's quarterly refunding by the U.S. Treasury, when an expected \$31 billion of new securities will be put up for sale. Auction time is always a cause for jitters about whether the Japanese will be big buyers. But this time, those worries are overshadowed by the specter of inflation and doubts about the Federal Reserve Board's resolve to deal with it.

Fears about how high yields might need to go to attract buyers is causing disarray in the U.S. bond market. Falling prices have already driven yields to just over 9 percent on 10-year and 30-year bonds, up from 8.45 percent just a month ago.

The growing weakness of bond prices, in turn, is undermining stock prices. The Dow Jones industrial average lost 51 points last week. The dollar has barely held its ground against the yen and the Deutsche mark, as traders try to assess whether its next move is up or down.

A rise in U.S. interest rates, said Jonathan Wilmut of Credit Suisse First Boston in London, could be the opening move for a worldwide move to higher rates, with the Bank of Japan seeking to defend the yen against the dollar and the West German Bundesbank moving to support the mark, which has weakened within the European Monetary System. "It's a nasty scenario," he said.

**Tougher, tighter policy at the Fed would improve the bond market.**

Judging by Friday's closing rates, the foreign-exchange market appears to be anticipating a rate rise in the United States but not in Japan, since the dollar ended strong at 159.30 yen. But against the mark it was weak at 167.65 DM, indicating that traders believe the Bundesbank is bound to raise its interest rates.

Ironically, a rise in short-term U.S. rates is precisely the medicine many market analysts prescribe to arrest the deterioration in bond prices.

"Tougher, tighter policy at the Fed would improve the bond market," said Rimmer de Vries, economist at J.P. Morgan & Co. "This is a fine-tuning Fed," he added, "and its credibility is being questioned. If for political reasons the Fed drags its feet, its credibility is at stake."

**HIS OWN BET** on whether the U.S. federal funds rate will rise is that "it will be a close call, a 50-50 proposition." While the bond market may be calling for such medicine, the problem about administering it is the frustrating uncertainty about whether it is really warranted.

Market analysts are deeply divided on this issue. The fundamental dispute concerns how fast the economy and inflation are really growing.

The inflation data for the first quarter, reported Friday, were bad, showing prices rising at a rapid, 6.5 percent annual rate. Growth of 2.1 percent was less than had been feared. But pessimists caution that this preliminary number will be revised twice and that it may eventually come close to the 2.4 percent figure that economists were expecting.

The debate centers on whether the first-quarter data give a reliable picture of the U.S. economy or whether serious distortions — particularly the unseasonably mild weather — exaggerated what was really happening and give a false image of what may be in store.

"Seasonal adjustment of the numbers is up, because winter usually slows things down," explained Arnold Simkin, a London-based consultant. To illustrate the distortion from a mild winter he said, "imagine a truck that normally travels at 55 miles an hour but in winter usually slows to 40 miles an hour. Seasonal adjustment raises the speed to 55 miles. But since the truck was actually doing 55 miles this winter the adjustment puts the speed at 70 miles an hour."

Paul Chertkov, currency analyst at Citibank in London, expressed a widely held view that the first-quarter numbers are exaggerated. We will see inflation pressures abate. Housing, manufacturing and the financial sector are all fairly depressed and when the market realizes how weak growth is it will realize inflation is not headed higher.

At the other extreme are those, like Mr. de Vries, who expect a steady 2 percent-plus rate of growth in the second quarter and inflation continuing at an unacceptably fast rate.

It will be some time before there is conclusive evidence to support either of these theories, but this week the first of the April tea leaves will become available, and analysts agree that great meaning will be read into these first numbers for measuring activity in the second quarter.

The most important of these is Friday's data on employment. Excluding the temporary hiring of census takers, the unemployment rate would have to rise to give credence to those who say activity in the first quarter was transitory. A possible harbinger of things to come was last week's announcements of layoffs: Mo-

See EURO, Page 13

## CURRENCY RATES

Cross Rates	Yen	DM	FF	£	Sfr	Scd	Yen
Amsterdam	1.845	1.391	1.739	0.634	1.153	—	1.192
Brussels	1.845	1.391	1.739	0.634	1.153	—	1.192
Frankfurt	1.845	1.391	1.739	0.634	1.153	—	1.192
London	1.845	1.391	1.739	0.634	1.153	—	1.192
Paris	1.845	1.391	1.739	0.634	1.153	—	1.192
New York	1.845	1.391	1.739	0.634	1.153	—	1.192
Tokyo	1.845	1.391	1.739	0.634	1.153	—	1.192
Zurich	1.845	1.391	1.739	0.634	1.153	—	1.192
1 BCU	1.845	1.391	1.739	0.634	1.153	—	1.192
1 SDR	1.845	1.391	1.739	0.634	1.153	—	1.192

Continued on Page 2

## Last Week's Markets

Stock Indexes	Apr. 27	Apr. 28	Apr. 29	Apr. 30
DJ Industrials	2,465.05	2,465.72	2,465.72	2,465.72
DJ 100	2,465.05	2,465.72	2,465.72	2,465.72
DJ 200	2,465.05	2,465.72	2,465.72	2,465.72
DJ 300	2,465.05	2,465.72	2,465.72	2,465.72
DJ 400	2,465.05	2,465.72	2,465.72	2,465.72
DJ 500	2,465.05	2,465.72	2,465.72	2,465.72
DJ 600	2,465.05	2,465.72	2,465.72	2,465.72
DJ 700	2,465.05	2,465.72	2,465.72	2,465.72
DJ 800	2,465.05	2,465.72	2,465.72	2,465.72
DJ 900	2,465.05	2,465.72	2,465.72	2,465.72

## Harsh Facts Belie the Glitter of Trump's Casinos

By Diana B. Henriques  
New York Times Service

NEW YORK — In late March, Donald J. Trump was putting the finishing touches on the exuberant publicity campaign that attended the April opening of his Trump Taj Mahal Hotel & Casino in Atlantic City, New Jersey. The result was industrial-strength hoopla, during which Mr. Trump hurled about the thrill of finally completing the vast and long-delayed project and the vitality it would inject into all of Atlantic City.

The casino was, after all, "the eighth wonder of the world," the publicists proclaimed. At about the same time, lawyers and accountants who work for Mr. Trump were busy meeting a less glamorous deadline: the filing of the annual financial disclosure documents the Securities and Exchange Commission requires of people like Mr. Trump, who borrow money by selling bonds to the public.

Those SEC reports are something of a wonder, too. They add some hard, and unexpectedly harsh, financial data to the vague general impression that 1989 was a mediocre year for the New Jersey resort's casino industry.

And they differ in tone to a remarkable degree from the confident hyperbole that surrounded the opening of Trump's Taj Mahal. For one thing, these filings show that Mr.

Trump's two other Atlantic City casinos had a very tough year in 1989, even before they faced the new competition posed by the Taj. Not even Mr. Trump seems to have anticipated just how difficult the year would be, since he substantially overestimated the amount of cash the two wholly owned ventures would produce in 1989.

In addition, the financial forecasts contained in the SEC documents contrast sharply with Mr. Trump's airy assurances when the Taj opened.

"I can't get into trouble in Atlantic City," Mr. Trump said then.

"Yeah, 1989 was a tough year," Mr. Trump said in an interview last week, when asked about the results detailed in the SEC documents.

"And 1990 will be similar or down a little, because of the effects of the Taj Mahal," Mr. Trump said. "But the Plaza and the Castle were the top casinos in town in January and February, and it's always great to be No. 1 and No. 2," he said.

"And the town as a whole is up tremendously because of the Taj. You know, I always prefer to look at the positives," Mr. Trump added.

Nonetheless, Mr. Trump's accountants and lawyers reported that Trump's Castle had a loss of \$6.7 million last year, after losing \$3.1 million in 1988.

While Trump Plaza was still firmly in the black, its results were considerably less robust than in 1988.

And cash flow, as defined for SEC purposes, plummeted at both casinos, which are operated through Trump-owned partnerships.

As Mr. Trump points out, the Castle casino did show a gain in net revenue — in casino parlance, that's the cash raked in from gamblers, less the winnings paid out, plus the actual cash paid by customers for food, beverage and hotel rooms.

But although net revenue rose, costs jumped, too, and operating income at the Castle fell for the third year in a row.

By way of explanation, the authors of the SEC document noted that Trump's Castle was hurt substantially last year because of "increased promotional and marketing expenses" due to stiffer competition.

As for the future, the document continued, "management believes that future cash flows

See TRUMP, Page 13

## A Forbes Billionaire No Longer

United Press International

NEW YORK — Donald J. Trump the billionaire is no longer, according to Forbes magazine, which maintains a list of America's richest people.

Mr. Trump's net worth hovers around \$500 million, far less than Forbes' estimate of his wealth last year of \$1.7 billion, according to an article in the magazine's May 14 issue.

Mr. Trump told Forbes he has a net worth of "\$4 or \$5 billion," the magazine said. Mr. Trump's properties have a market

value of just under \$3.7 billion, but he is facing a debt of almost \$3.2 billion, the magazine said, citing "nonpublic documents submitted by Trump to a governmental body."

Most affecting Mr. Trump's fortune, Forbes said, has been a general decline in real estate values.

"Even granting his magic touch in upgrading properties, the fact is that virtually all real estate has come down in value the past few years," Forbes wrote.

## Milken: Financial Genius or Crook, History Will Decide

By Paul Richter  
Los Angeles Times Service

NEW YORK — J.P. Morgan was accused of selling defective carbines to the Army, setting up an illegal steel trust and running the financial world like a puppeteer.

Today he is largely remembered as the financier who averted a U.S. financial panic, enabled the U.S. Treasury to refinance its debts and helped build the American empire.

The passage of years may similarly polish the reputation of Michael R. Milken, the junk-bond pioneer who pleaded guilty to federal felony charges last week. But only if he is lucky.

Events that are still unfolding will largely determine whether Mr. Milken's marble bust will reside in the pantheon of financial greats, or be consigned to the rogues gallery, with the robber baron Jay Gould.

the swindler Charles Ponzi and the stock speculator Ivan F. Boesky.

If junk-bond investments are found to be central to the collapse of many thrifts, if more junk-funded companies fold under their debts and if the Wall Street scandal widens further, Mr. Milken's name may be mud.

He could go down in the record books as a symbol of a decade when financiers earned fortunes

## Orders for U.S. Tools Rose Steeply in March

By Jonathan P. Hicks  
New York Times Service

NEW YORK — Rising to their highest level since September, new orders for American-made machine tools rose 36.6 percent in March, largely because of surges in orders from domestic manufacturers and foreign customers.

A monthly report for release Monday by the Association for Manufacturing Technology, the machine-tool industry trade association, said that the level of new orders rose to \$263.8 million in March, up from February's level of \$194.55 million.

But compared with the March level a year earlier, new orders were down 8.5 percent, the trade association said. And the level for the first quarter of this year was down 17.6 percent from the comparable period in 1989.

The monthly surge in new orders reflected a rebound in capital spending, analysts said, adding that many manufacturers had begun to spend on plant

## Europe May Sap Asia Investment

Compiled by Our Staff From Dispatches

MANILA — Asia could be crowded out in competition for financing and trade as the once centrally planned economies of Eastern Europe enter the international arena, the Asian Development Bank said in a report for issue Monday.

The Manila-based bank said in its annual Development Outlook that the opening up of Eastern Europe and the planned abolition of internal trade barriers within the European Community after 1992 provides opportunities and potential problems for Asian business.

It said Eastern Europe could siphon off capital and trade from Asia and other developing areas, while strong consumer and investment demand in the former communist states could increase inflationary pressures, particularly in West Germany.

To take advantage of the opportunities "may well require direct investment in Europe by Asian producers," the report said.

While Eastern Europe provided new opportunities for investment and trade, it could also pose a challenge to Asia as an alternative source of skilled, but relatively cheap labor, the bank said in the report, which is published in conjunction with its 23rd annual meeting in New Delhi, opening on Wednesday.

The bank has lent \$29 billion to foster growth in Asia since it was launched in 1966.

The new ADB president Kimmas Tarmuzi said events in Europe "may provide some additional growth stimulus to the world economy," while economic prospects in Japan and Western Europe remain strong.

But he stressed that intra-Asian trade is growing rapidly, and is now "far outpacing corresponding trade flows in other regions and with the rest of the world."

The report by the ADB, which links 49 member governments of industrialized and developing nations, forecast that overall the economies of developing countries in Asia would grow at 5.9 percent in 1990 and 6.3 percent the following year, compared with 5.4 percent in 1989, when growth slowed sharply.

It said this is double the anticipated world average of 2.9 percent growth in real gross national product in both 1990 and 1991. Southeast Asia has overtaken the region's four dragons — Singapore, South Korea, Taiwan and Hong Kong — as Asia's fastest growing area.

The report noted that the Japanese economy is going through profound changes, shifting toward an economy increasingly driven by domestic demand and becoming a linchpin in developing trade and investment within the region.

This will result in a continued rapid rise in Japanese imports and an increase in Japanese spending on foreign travel and tourism that will help stabilize Tokyo's large current-account surplus.

The U.S. economy will remain vulnerable so long as the country does not address its domestic and foreign deficits, low savings rate and exposure to domestic and developing country debt, the bank said.

Despite the possible threat of increased protectionism in Europe, the integration of the 12-nation EC market is likely to benefit Asian exporters by giving them wider access to the Community, while the anticipated spur to European growth will provide better sales prospects, particularly for Asian electronic goods, jewelry and gems.

The bank forecast that because of narrowing labor costs, there would be intense competition between Asian manufacturers and those in Southern Europe.

(Reuters, AFP)

## Bank of Tokyo's Role as Japan's Financial Envoy Dwindles

By James Sterngold  
New York Times Service

TOKYO — As Japan's longtime financial ambassador to the world, Bank of Tokyo became used to seeing its fortunes mirror the international successes of corporate Japan.

But in a striking example of how deregulation and competition are transforming the financial system here, this proud institution is now in the fight of its life.

The bank's century-old role as the engine for much of Japan's international growth has been eroded by the expanding foreign presence of the big banks and more aggressive Japanese rivals, like Sumitomo Bank, Dai-ichi Kangyo Bank and Industrial Bank of Japan.

The bank has also been hurt by the loosening of the country's rigid financial regulations. That liberalization, for example, has ended its monopoly on the foreign-exchange business of Japanese corporations.

But most of all, Bank of Tokyo is suffering for simply doing what it was designed to do: focus on overseas business and not worry about the home market.

Its heavy international involve-

ment made it vulnerable during the last two decades to the same financial turbulence that nearly ruined a number of American banks, leaving it with the same Third World debt problems, while it largely missed out on the economic boom in Japan.

Despite the weight of its troubles, the bank — 19th largest in the world and 14th largest in Japan — has no plans to change direction, top executives say.

"We're an international specialist bank," insisted Kaoru Hayama, the bank's key strategist and managing director of its planning department. "That is what makes us unique. We are operating in a more competitive world, and customers tend to shop around rather than assign their business to just one bank."

"That's why our specialty in international business matters is a strength."

It is a strategy that leaves analysts skeptical.

"Their position as a specialty foreign-exchange bank made them very important to Japanese corporations at one time," said James E.

Russell at Merrill Lynch Japan. "But everywhere you turn today, they have some disadvantage. In some ways they are being pushed back into fringe markets."

The bank has spent heavily, for instance, to build its presence in California, where it owns Union Bank. And Bank of Tokyo's chairman, Yusuke Kashiwagi, has said repeatedly that he sees Asia as the most promising market for expansion.

But analysts say it is just purchasing market share in the United States. In Asia, they add, the bank is finding it harder to compete.

"They no longer have any real advantages" in Asia, said Brian Watters, an analyst with James Capel Pacific. "They're stepped in history, but there's not much they can do that Mitsubishi Bank or BNP or Fuji Bank cannot do."

Meanwhile, there is little room to grow at home, where the bank has just 32 offices, compared with 295 abroad.

Since the government tightly regulates the number of new offices, the only effective way to expand is by acquisition, and prices are pro-

### EUROPEAN SMALLER COMPANIES FUND

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#### Dividend Notice

By resolution of the Annual General Meeting held on April 24, 1990 a dividend of ECU 0.07 per share class 'A' and per share class 'B' is declared payable on or after April 30, 1990 to registered shareholders on record on April 24, 1990 and to holders of bearer shares upon presentation of coupon No. 3. The shares are quoted ex-dividend as from April 24, 1990.

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By order of the Board of Directors

### BusinessWeek

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## WEEKLY INTERNATIONAL BOND PRICES

Quoted by Credit Suisse First  
Mortgage Securities, London, Tel:  
323 11 30. Prices may vary  
slightly to market conditions.  
April 27

## Australian Dollars

Issuer	Con	Mat	Price	Yld	Sec	Trav
ANZ	100	1991	100.00	10.00		
Bank of Australia	100	1991	100.00	10.00		
Commonwealth Bank	100	1991	100.00	10.00		
Macquarie Bank	100	1991	100.00	10.00		
Westpac	100	1991	100.00	10.00		
ANZ	100	1992	100.00	10.00		
Bank of Australia	100	1992	100.00	10.00		
Commonwealth Bank	100	1992	100.00	10.00		
Macquarie Bank	100	1992	100.00	10.00		
Westpac	100	1992	100.00	10.00		
ANZ	100	1993	100.00	10.00		
Bank of Australia	100	1993	100.00	10.00		
Commonwealth Bank	100	1993	100.00	10.00		
Macquarie Bank	100	1993	100.00	10.00		
Westpac	100	1993	100.00	10.00		

## Canadian Dollars

Issuer	Con	Mat	Price	Yld	Sec	Trav
Bank of Montreal	100	1991	100.00	10.00		
Imperial Bank of Canada	100	1991	100.00	10.00		
Bank of Nova Scotia	100	1991	100.00	10.00		
Bank of Toronto	100	1991	100.00	10.00		
Bank of Montreal	100	1992	100.00	10.00		
Imperial Bank of Canada	100	1992	100.00	10.00		
Bank of Nova Scotia	100	1992	100.00	10.00		
Bank of Toronto	100	1992	100.00	10.00		
Bank of Montreal	100	1993	100.00	10.00		
Imperial Bank of Canada	100	1993	100.00	10.00		
Bank of Nova Scotia	100	1993	100.00	10.00		
Bank of Toronto	100	1993	100.00	10.00		

## Euro Straights

Issuer	Con	Mat	Price	Yld	Sec	Trav
Bank of England	100	1991	100.00	10.00		
Deutsche Bank	100	1991	100.00	10.00		
Paribas	100	1991	100.00	10.00		
Bank of England	100	1992	100.00	10.00		
Deutsche Bank	100	1992	100.00	10.00		
Paribas	100	1992	100.00	10.00		
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## MUTUAL FUNDS

Figures as of close of trading Friday, April 27.

Fund	Assets	Assets	Assets	Assets	Assets	Assets
First Fund	100	100	100	100	100	100
Second Fund	100	100	100	100	100	100
Third Fund	100	100	100	100	100	100
Fourth Fund	100	100	100	100	100	100
Fifth Fund	100	100	100	100	100	100
Sixth Fund	100	100	100	100	100	100
Seventh Fund	100	100	100	100	100	100
Eighth Fund	100	100	100	100	100	100
Ninth Fund	100	100	100	100	100	100
Tenth Fund	100	100	100	100	100	100

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Sixth Fund	100	100	100	100	100	100
Seventh Fund	100	100	100	100	100	100
Eighth Fund	100	100	100	100	100	100
Ninth Fund	100	100	100	100	100	100
Tenth Fund	100	100	100	100	100	100

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Second Fund	100	100	100	100	100	100
Third Fund	100	100	100	100	100	100
Fourth Fund	100	100	100	100	100	100
Fifth Fund	100	100	100	100	100	100
Sixth Fund	100	100	100	100	100	100
Seventh Fund	100	100	100	100	100	100
Eighth Fund	100	100	100	100	100	100
Ninth Fund	100	100	100	100	100	100
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Fourth Fund	100	100	100	100	100	100
Fifth Fund	100	100	100	100	100	100
Sixth Fund	100	100	100	100	100	100
Seventh Fund	100	100	100	100	100	100
Eighth Fund	100	100	100	100	100	100
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Third Fund	100	100	100	100	100	100
Fourth Fund	100	100	100	100	100	100
Fifth Fund	100	100	100	100	100	100
Sixth Fund	100	100	100	100	100	100
Seventh Fund	100	100	100	100	100	100
Eighth Fund	100	100	100	100	100	100
Ninth Fund	100	100	100	100	100	100
Tenth Fund	100	100	100	100	100	100



## New International Bond Issues

Compiled by G. Jennifer Shapiro

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price and week	Terms
<b>Floating Rate Notes</b>						
Pearl Street A	\$106	2002	3/8	99.65	—	Over the 6-month Libor. Redeemable in 1995. Fees undisclosed. (Goldman Sachs Int'l)
Santander Financial Services	\$200	Undat	5 1/2	100	—	Over the 6-month Libor. Rise to 60 basis points in years 6-10 thereafter spread undisclosed. (Shearman Lehman Hutton Int'l)
Hallifax Building Society	DM 300	1995	1/32	100 1/4	—	Over the 6-month Libor. Noncallable. Fees 0.20% (Wells)
Oesterreichische Kontrollbank	DM 300	1995	1/5	100.15	—	Below the 6-month Libor. Callable at par once in 1993. Fees 0.22% (CIBC Securities Inc.)
Heller Finance	¥10,000	1995	Flat	100.15	—	Will be the 6-month Libor. Callable and redeemable at par in 1992. Fees 0.15% (Goldman Sachs Int'l)
<b>Fixed-Coupons</b>						
Daiva Overseas Finance	\$67	2000	10	102	—	Callable at par once in 1994. Fees 2%. Danco Finance \$10,000 (Morgan Stanley Int'l)
Japan Finance Corp. for Municipal Ent.	\$150	2000	9 1/4	101 1/4	99.35	Noncallable. Fees 2%. (Bank of Tokyo Capital Markets)
World Bank	DM 750	2000	8 1/4	99 1/4	98.875	Noncallable. Fungible with previous bond issued May 1990. Fees 1 1/2% (Deutsche Bank)
Cheltenham & Gloucester Building Society	£75	1992	15 1/2	101.15	99.95	Noncallable. Fees 1 1/2% (J.P. Morgan Securities)
Interfinance Credit National	FF 500	1993	10 1/4	101	99.65	Noncallable. Fees 1 1/2% (Banque Paribas Paris)
Société Nationale des Chemins de Fer Français	FF 1,250	1997	9 1/4	98.30	96.60	Noncallable. Fungible with a previous bond issued Aug. 1989. Fees 1 1/2% (Citicrist Commercial de France)
General Electric	¥130,000	1993	13	101 1/2	100.70	Noncallable. Fees 1 1/2% (Banca Nazionale del Lavoro)
Export-Import Bank of Korea	ECU 100	1995	11	101 1/4	—	Callable and redeemable at par in 1993. Fees 1 1/2% (Merrill Lynch Int'l)
MI Bank International	ECU 100	1994	10 1/4	101 1/4	99.75	Noncallable. Fees 1 1/2% (Bankers Trust Int'l)
ipoin	ECU 500	1995	10 1/4	100.20	99.80	Noncallable. Fees 1 1/2%. Denomination 100,000 Esc. (Banca Italiana Venezia)
Canadian Imperial Bank of Commerce	CS 75	1993	14	101.95	100.50	Noncallable. Fees 1 1/2% (Woods Gundy)
SA Canada	CS 150	1995	13 1/4	101 1/4	100.45	Noncallable. Fees 1 1/2% (Credit Suisse First Boston)
Inter-Dominion Bank	CS 100	1992	14 1/4	101.85	100.72	Noncallable. Fees 1 1/2% (Scotiabank)
NZ Banking Group	Aus \$50	1992	16	101.95	100.82	Noncallable. Fees 1 1/2% (Foy Redwhite)
hell Australia	Aus \$100	1995	15 1/4	101.80	100.00	Noncallable. Fees 2% (Harris Bank)
Asian Development Bank	¥20,000	2000	7 1/4	101 1/4	—	Noncallable. Fees 1 1/2% (J.P. Morgan Int'l)
Historical Bank Og rediffuse	¥10,000	1993	7 1/4	101 1/4	—	Noncallable. Fees 1 1/2% (Nissara Int'l)
General Electric capital	¥20,000	1993	7 1/4	101 1/4	—	Noncallable. Fees 1 1/2% (DKB Int'l)

## EURO: Inflation Fears Augment Market Nervousness

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## Bond Yields Rise Past 9% Amid Fed Policy Fears

Compiled by Our Staff From Dispatches

NEW YORK — U.S. Treasury bonds yields pushed above the 9 percent level for the first time in a year last week amid fears that stronger economic growth and higher inflation would cause the Federal Reserve Board to tighten credit.

The bellwether U.S. issue, the 8.5 percent bonds that mature in 2020, closed Friday at 94 1/32 to yield 9.02 percent, down from 95 1/32 to yield 8.94 percent a week earlier.

Dealers said that much of the price decline came on rumors that Friday's report on first-quarter gross national product would show strong growth and rapidly rising inflation.

In the event, the rumors proved only half true. First-quarter growth, at 2.1 percent, was less than analysts had forecast but still nearly double the 1.1 percent rate of the 1989 fourth quarter.

But inflation, according to the Commerce Department's fixed-weight price deflator, climbed to 6.5 percent in the first quarter from 5.5 percent in the last quarter of 1989.

"Given the fact that the fixed-income market is now predisposed to negative news, the size of the rise in the GNP was quickly overshadowed by the deflator number," said Steven R. Riccio, chief economist at Barclays de Zoete Wedd Securities Corp.

Mr. Riccio said the negative reaction to the data was heightened by nervousness over the approaching U.S. Treasury refunding and a spate of economic reports scheduled for release this week.

On Wednesday, the Treasury is expected to announce plans to auction at least \$31 billion of notes and bonds, up from \$30 billion in the previous refunding last fall.

The main worry is that Japanese investors may shun the sales, preferring instead to deploy their assets in the depressed Tokyo stock market.

Among the economic reports to be released this week, economists said that the U.S. purchasing managers report for April, due Tuesday, and the April employment report, due Friday, will likely determine whether interest rates continue their recent upward jag.

Most economists say that the reports are not expected to offer much solace to the beleaguered bond market.

They said the purchasing managers index, which reflects the spending plans of major U.S. corporations, could move above the 50 percent level from 48.8 percent in March. Such a reading would mean that the U.S. manufacturing economy has again begun to expand.

The employment data are expected to show a big rise of about 382,500 in nonfarm payroll employment, again suggesting an upward turn in U.S. growth.

In the short-term markets last week, Treasury bill rates were mixed. Three-month rates eased to 7.74 percent from 7.76 percent a week earlier, while six-month rates climbed to 7.96 percent from 7.91 percent the previous week.

Dealers said that continuing weakness in the stock market caused a shift of some funds to three-month bills. (NYT/Reuters)

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## Loans Offer Array of Options

By Carl Gewirtz

International Herald Tribune

PARIS — Banks are syndicating a variety of international credits, giving lenders a wide array of options — high-margin project loans, high-margin and high-risk buyout loans and a smattering of standard credits.

Chase Manhattan and Credit Lyonnais have been appointed to arrange the \$680 million financing of

an aluminum smelter in Dunkerque being constructed by Pechiney.

The borrowing will be done in the name of Aluminium Dunkerque, a special company set up for the purpose, eliminating any recourse by the lenders to Pechiney.

Until completion of the plant, expected in 1992, interest on the loan is set at 8 1/2 percent over the London interbank offered rate. Thereafter, depending on the level of debt still outstanding and the cash flow of the company, the margin will range between 7 1/2 and 8 1/2 percent over LIBOR. The maturity of the loan is a maximum of 15 years with principal repayments scheduled to begin in 1993.

Another project financing, for Norske Skogindustrier, is being arranged by Paribas and the Bank of Paris and Christiana Bank.

The actual borrower is Pape-

teries de Golbey, which will operate a newsprint mill in Golbey, France. The total credit amounts to 1.88 billion French francs (\$334 million). Of this, 1.76 billion is a limited-recourse facility running for 11 years. Interest will range between 7 1/2 and 8 1/2 percent over the interbank rate, depending on the amount of the facility drawn and the financial performance of the borrower.

The remaining 120 million francs is a working-capital facility of five years, which decreases to 100 million francs after three years. Interest will range from 7 1/2 to 8 1/2 percent over the interbank rate, depending on the maturity of the drawings.

Charterhouse PLC is arranging for the management buyout of the European operations of Del Monte. The Del Monte property had previously been spun off by RJR Nabisco Inc. to a consortium led by Merrill Lynch and the European operations are now being purchased by managers and a consortium of investors led by Charterhouse.

The \$375 million purchase consists of \$136 million in equity and \$239 million in debt, including some working capital that will not be drawn immediately.

This will consist of \$85.2 million to be drawn 60 percent in French francs and 40 percent in Deutsche marks, \$57.4 million that will be

drawn entirely in sterling and \$60 million of a revolving-credit facility to be drawn as needed. These loans will run for seven years, with principal paid only at final maturity, carrying interest of 1 1/4 points over LIBOR. There will be a commitment fee of 1/4 percent on any undrawn amounts.

The equivalent of \$80 million will be raised in Deutsche marks and will carry options to purchase stock. This loan will run for 11 years paying interest of 3 1/4 points over LIBOR.

Charterhouse officials said that the currency drawings are set to match the expected revenue stream of Del Monte.

Electricity Corp. of New Zealand, wholly owned by the government but not carrying an explicit state guarantee, is seeking \$200 million in a five-year loan being arranged by Banque Nationale de Paris. Interest will be set at 35 basis points over LIBOR.

A group of Japanese banks led by Sumitomo Bank is arranging a one-year loan of \$50 million to the Development Bank of Turkey. Interest is set at 40 basis points over LIBOR and front-end fees add another 10 basis points.

In the quasi-equity market, SE Bank of Sweden is raising Tier 2 capital through the sale of \$200 million of perpetual floating-rate notes.

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## Debt Problem Slows Progress In UN Talks

Reuters

UNITED NATIONS, New York — A UN General Assembly session on international economic cooperation, which was scheduled to end Saturday, has been extended until Monday because of difficulties in drafting a concluding document, according to a United Nations spokesman.

A source involved in closed-door negotiations said Saturday that the main problems were over language dealing with debt and development aid.

These issues, particularly debt rescheduling or forgiveness, are at the heart of long-standing differences between Third World nations and some developed countries, particularly the United States.

Washington believes that debt should be dealt with on a country-by-country basis and not, according to a global formula.

Despite difficulties over the final document, the special session, which began April 23, has been largely free of the recriminations that often characterized previous North-South encounters on.

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## WALL STREET REVIEW

Figures as of close of trading Friday, April 27.

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## Your Oxford Summit

University College  
September 19-22, 1990

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## TRUMP: Cold Numbers Belie Developer's Hot Image

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\* Consolidated trading for week  
ended Friday, April 27.

\* Consolidated trading for week  
ended Friday, April 27.

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DPK 1001 SA



## Taiwan Futures Firms May Be Thing of Past

Reuters

TAIPEI — The wild, unregulated days of Taiwan's illegal futures trading, when gamblers bet vast sums on overseas markets moved, are ending as the government tries to control the island's rampant underground economy.

The Bureau of Investigation last week questioned the heads of several underground futures houses and sent investigators in to check the books of many more.

When the officials arrived, nervous customers left, drying up turnover and commissions. "It's part of a campaign to bring some law and order," said Martin Tsai, a lawyer whose firm has studied the industry for the government. "Many futures companies have links with Taiwan's underground investment houses, which in turn have links with Taiwan's equivalent of the mob."

Analysts say Taiwan's futures houses trade contracts worth between five billion and 10 billion Taiwan dollars (\$190.8 million to \$381.6 million) a day.

Newspapers recently have been filled with reports of the heads of futures firms, seeing an end to the days of easy money, escaping to Hong Kong or Malaysia with millions of dollars of customers' funds.

But many in the futures industry say they provide a legitimate service for Taiwan's wealthy middle class, who want high returns on their money and who are not worried about risk.

At some 300 companies around Taiwan, investors watch computer screens through the night, tracking the U.S. prices for Treasury bonds, gold, currencies, soybeans, pork bellies and stock futures.

In the rest of the world, futures are a legitimate way for businesses to minimize risk. Futures allow investors to agree on a price months before they need to buy or sell a commodity, and thus protect themselves from price movements.

But in Taiwan, almost every trade is simply for speculation and very few contracts ever leave the island to be traded on a legitimate, regulated, overseas exchange.

A new futures law, now awaiting action by parliament, will give the government a tough new weapon against the underground houses, providing seven-year jail terms for unlicensed brokers.

## WORLD STOCKS IN REVIEW

Via Agency France-Press

### Amsterdam

Stocks again proved vulnerable to a weaker dollar and the Amsterdam CBS all-share index closed the week with a substantial loss.

The index declined to 191.8 Friday, compared with a close of 197.7 the week before. Total turnover rose to 6 billion guilders, from 5.6 billion the week before. Equities totaled 3.4 billion guilders, against 3 billion the previous week.

The Kempen & Co. brokerage forecast that uncertainty would continue in the short term. It expects prices to maintain their current level at best.

Shares on the Frankfurt stock exchange dropped sharply, with losses reaching up to 2.5 percent in one day, after the announcement Monday that weak East German marks will be converted into strong Deutsche marks on July 2.

The Commerzbank index dropped 87.60 points on the week, or 4 percent, to 2,228.60. The DAX index ended the week at 1,825.52, down 58.81 points from the previous week's close.

Foreign buyers made themselves scarce amid fears that the Deutsche mark could be pulled down by the state of the East German economy.

The outcome collective bargaining in the metal industry and the dispute over Lithuania's unilateral

### Hong Kong

Share prices dropped sharply due to lack of buying interest, pushing the main barometer below the psychological barrier of 3,000 points on Friday.

At the end of the week's trading, the Hang Seng Index had shed 80.97 points, or 2.6 percent, to close at 2,986.33 points, after staying above the 3,000-point mark since April 17.

Dealers said this week's trading could be mixed unless fresh overseas funds come into the market to push the indicator back above the psychological level of 3,000 points.

Negative economic statistics, concerns over inflation and profit warnings from major banks took their toll on share prices.

The Financial Times 100-share index ended the week at its lowest level in five months. It dropped 80.5 points to 2,106.6.

The prospect of a bad showing for the ruling Conservative Party at local elections on May 2 also weighed on sentiment.

Milan had a disappointing week, with three losing sessions and one with a slight gain. The exchange

was closed April 25 for a holiday. The MIB index lost 1.95 percent to end at 1,008, against 1,028 a week earlier. The Comit indicator lost 1.99 percent, ending at 691.32.

The Paris Bourse lived up to the tradition that May is a losing month on the market. In the first week of the May Bourse term, the CAC-40 index finished at 2,066.27, down slightly over 3 percent for the week.

Analysts said the Bourse's winning sessions of previous weeks had tended to ignore international developments, particularly upward pressures on U.S. interest rates resulting from inflationary pressures and good growth. These developments have done away with hopes of an impending loosening of American monetary policy.

The Singapore market saw very little buying support from local or foreign investors.

The Straits Times index shed 50.12 points to end at 1,470.44, while the broader-based Stock Exchange of Singapore all-Singapore index lost 13.41 points to close at 404.26.

Much of the week's losses reflected weakness on overseas exchanges.

Japanese share prices fell in dull trading as investors took a wait-and-see attitude ahead of the holiday-studded Golden Week starting April 30.

The Tokyo Stock Exchange's key index, the Nikkei average of 225 blue chips listed on the major section, shed 250.64 points, or 0.84 percent, to 29,584.80. The drop followed a 621.52-point gain the previous week, the first advance in nine weeks.

The market will be closed for holidays every day this week except Tuesday and Wednesday.

The Zurich stock market hit a low for the year on Friday.

The Swiss Performance Index dropped to 1,052 points from 1,070 points. The Credit Suisse indicator ended at 581.2 against 591.4.

Bankers said there was no objective reason for the week's drop.

## South Korea Declines to Aid Market

Compiled by Our Staff From Dispatches

SEOUL — Stocks plunged to a record low in weekend trading after officials said definitively that they would not support the market.

The composite stock index fell 28.49 points Saturday to 720.37, an unprecedented swing for a half-day and very close to the record one-day plunge of 28.96 on Thursday.

But Finance Minister Chung Yung Eui said that he had decided not to take any bailout action similar to that taken when the index fell to its 1989 low, at 844.75 points, on Dec. 11.

At that time, a panicked government announced an unprecedented measure allowing the central bank of Korea to release an unlimited amount of funds to buy up shares.

Mr. Chung said that he believed investors would return to the market now that the government had implemented strong measures to discourage real estate speculation.

Hundreds of small-time investors have protested to their securities companies in the past two weeks as the stock index dipped below the psychological 800-point barrier and kept falling.

Some broke office furniture and computers and put up posters inscribed with such slogans as "Down with the Roh Regime," as anger focused on the government of President Roh Tae Woo.

Sentiment was worsened by labor unrest at the southeastern city of Ulsan, which was paralyzed by sympathy walk-outs at Hyundai companies after police raided a Hyundai Heavy Industries shipyard to break up a strike by more than 20,000 workers.

(AFP, Reuters)

## BUSINESS BRIEFS

### Honda to Make Cars in Philippines

MANILA (Reuters) — Honda Motor Co. plans to make its Civic in the Philippines in a joint venture with a local partner.

Koji Mizuguchi, Honda's operations officer for Asia, told reporters Saturday that the company would submit its formal proposal to the Board of Investments on Monday. He declined to disclose the amount of investment involved or the plant's capacity.

The investment board has asked foreign companies to submit proposals for the manufacture of cars with 1.2-liter engine capacity.

### Bank of New England Has Loss

NEW YORK (NYT) — Bank of New England Corp. announced that it had a loss of \$46.6 million for the quarter ended March 31, compared with a profit of \$42.3 million in the year-earlier period.

The company, which had a \$1.1 billion loss in 1989, continues to be troubled by bad real estate loans in a weakening New England economy. Earnings were hurt by the need to add \$151 million to its reserves loan losses in the first quarter. The need to pay higher interest rates deposits to attract funds also affected earnings.

### New Zealand Confidence Ebbs

WELLINGTON (Reuters) — New Zealand business confidence is another battering in April, as businesses forecast lower investment and declining economic activity. National Bank of New Zealand Ltd. said survey released Monday.

Inflation expectations of businesses were unchanged from March at percent for the next 12 months.

"On average, the March quarter economic forecasts about the outlook for the 1991 financial year turned out to be more pessimistic" than that issued in the quarter ended Dec. 31, the bank's economists said.

### World Bank to Clear Loan to Poland

WASHINGTON (Reuters) — The World Bank's board is likely to approve on Tuesday a \$153 million loan for railroad and other transportation facilities in Poland, bank officials said.

They said that Poland was also negotiating with the bank for two other loans — one for the energy sector and the other a structural adjustment loan to help revamp the economy.

One bank official said the loans could total around \$500 million.

### France Approves Renault Legislation

PARIS (Reuters) — The French Socialist government used emergency powers on Saturday to force through the legislature a bill partly shielded by Renault's special status as a nationalized concern.

Prime Minister Michel Rocard, invoking a special clause in the constitution, put an end to filibustering by Communist Party members opposed to the change, which is necessary before Volvo AB of Sweden can take a 10 percent share in Renault. Communists charged that the Volvo accord was a "Trojan horse" to allow Japanese interests into the company.

### Comex and Nymex Seeking Merger Deal

NEW YORK — Representatives of The Commodity Exchange Inc. and the New York Mercantile Exchange hope to develop a merger proposal that can be presented to the boards of both exchanges in about two weeks.

Industry sources said Friday that the timetable for a merger was set when negotiating teams from Nymex and Comex met Thursday to begin developing a framework for an agreement.

Between 15 and 20 elected officials and staff members from both exchanges attended the Thursday meeting, the sources said.

If such an agreement is reached, and approved by the board of governors of each exchange, it would then be presented to the members of both exchanges.

## ADRs' Popularity Growing, but Pitfalls Abound

By Jonathan Fuerbringer

New York Times Service

NEW YORK — One of the easiest ways for American investors to buy into foreign stock markets is through American Depositary Receipts, whose popularity is growing. However, investors can face problems.

Fees on ADRs can diminish their dividends, and investors can have trouble selling them or getting information on the company whose stock they represent. Also, prices quoted in the United States on ADRs may not be as good as those for the stock at home.

An ADR is a certificate representing shares of a foreign stock that is issued by a depository bank. They are popular with investors be-

cause they are priced in dollars and trade like U.S. stocks.

The receipts also avoid the problems of settlement in some foreign markets and the costs of trading there.

But traders in these receipts suggest taking some precautions. "If you want to buy ADRs, choose the ones that are actively traded here, or there is no advantage to them," said Jimmy Wang, a first vice president at Prudential Bache Securities Inc., one of the leading traders of these receipts.

ADRs pose a currency risk, although they are priced in dollars. In addition to the value of the stock, the ADR price reflects the fluctuations of the currency in a stock's home market.

Not all ADRs are the same.

Some are sponsored by the company, but most are not.

Of the 630 ADRs handled by Bank of New York, the largest depository bank, only 130 are sponsored, according to Joseph M. Velli, a senior vice president. But the number is growing.

Without sponsorship, the investor will pay a fee to the depository bank for administering the account.

The fee can reduce the dividend by two to four cents. And in most cases, Mr. Velli said, the annual report, proxy statements and other company information will not be delivered to the investor.

Some ADRs are listed on the New York Stock Exchange, the American Stock Exchange or the National Association of Securities

Dealers Automated Quotation system, but, again, only a few. Of the existing 810 ADRs, Mr. Velli said, only 170 are listed.

Not all companies want to meet the disclosure requirements of listing. Those ADRs that are not listed trade over the counter in the "pink sheet" market. This means their prices are not published in newspapers, but are supplied by traders, who determine their own risks.

Still, there are popular ADRs, like Siemens AG of West Germany, that are traded this way.

Many ADRs have very small trading volume, even if listed. Only 600 Fiat SpA shares traded on Friday and only 10,400 changed hands in April.

## CHICAGO EXCHANGE OPTIONS

Figures as of close of trading Friday, April 27.

Option & price	Colls	Puts	Option & price	Colls	Puts
Alcoa	48	1	3M	28	1
Amgen	12	1	4M	28	1
Amstar	12	1	5M	28	1
Amstar	12	1	6M	28	1
Amstar	12	1	7M	28	1
Amstar	12	1	8M	28	1
Amstar	12	1	9M	28	1
Amstar	12	1	10M	28	1
Amstar	12	1	11M	28	1
Amstar	12	1	12M	28	1
Amstar	12	1	13M	28	1
Amstar	12	1	14M	28	1
Amstar	12	1	15M	28	1
Amstar	12	1	16M	28	1
Amstar	12	1	17M	28	1
Amstar	12	1	18M	28	1
Amstar	12	1	19M	28	1
Amstar	12	1	20M	28	1
Amstar	12	1	21M	28	1
Amstar	12	1	22M	28	1
Amstar	12	1	23M	28	1
Amstar	12	1	24M	28	1
Amstar	12	1	25M	28	1
Amstar	12	1	26M	28	1
Amstar	12	1	27M	28	1
Amstar	12	1	28M	28	1
Amstar	12	1	29M	28	1
Amstar	12	1	30M	28	1
Amstar	12	1	31M	28	1
Amstar	12	1	32M	28	1
Amstar	12	1	33M	28	1
Amstar	12	1	34M	28	1
Amstar	12	1	35M	28	1
Amstar	12	1	36M	28	1
Amstar	12	1	37M	28	1
Amstar	12	1	38M	28	1
Amstar	12	1	39M	28	1
Amstar	12	1	40M	28	1
Amstar	12	1	41M	28	1
Amstar	12	1	42M	28	1
Amstar	12	1	43M	28	1
Amstar	12	1	44M	28	1
Amstar	12	1	45M	28	1
Amstar	12	1	46M	28	1
Amstar	12	1	47M	28	1
Amstar	12	1	48M	28	1
Amstar	12	1	49M	28	1
Amstar	12	1	50M	28	1
Amstar	12	1	51M	28	1
Amstar	12	1	52M	28	1
Amstar	12	1	53M	28	1
Amstar	12	1	54M	28	1
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Amstar	12	1	61M	28	1
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Amstar	12	1	65M	28	1
Amstar	12	1	66M	28	1
Amstar	12	1	67M	28	1
Amstar	12	1	68M	28	1
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Amstar	12	1	98M	28	1
Amstar	12	1	99M	28	1
Amstar	12	1	100M	28	1

## AMERICAN EXCHANGE OPTIONS

Figures as of close of trading Friday, April 27.

Option & Price	Colls	Puts	Option & Price	Colls	Puts
Alcoa	48	1	3M	28	1
Amgen	12	1	4M	28	1
Amstar	12	1	5M	28	1
Amstar	12	1	6M	28	1
Amstar	12	1	7M	28	1
Amstar	12	1	8M	28	1
Amstar	12	1	9M	28	1
Amstar	12	1	10M	28	1
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## MONDAY SPORTS

## Blues Even Series With Blackhawks

## Bruins and Capitals Reach Finals

The Associated Press  
St. Louis Blues forward Brett Hull mustered some more offense for the St. Louis Blues, extending his team's life in the National Hockey League playoffs.

## NHL PLAYOFFS

Blues' Hull scored a power-play goal in the second round of a 4-2 victory over the Chicago Blackhawks.

The result Saturday night in St. Louis forced a seventh game in the first round of the playoffs.

The teams meet in Chicago on Monday night to decide who will advance to the second round.

The Capitals beat the New York Rangers 2-1, to advance to the second round of the playoffs.

The Capitals will face Boston in the second round of the playoffs.

The Bruins will face the Montreal Canadiens in the second round of the playoffs.

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HEARNS RETAINS WBO TITLE — Thomas Hearns attacking Michael Olajide in their 12-round World Boxing Organization super middleweight fight in Atlantic City on Saturday. Hearns withstood a late rally to retain his title on a unanimous decision.

## Czechs and Soviets Take Lead in World Hockey

BERN — Czechoslovakia and the defending champion Soviet Union avenged earlier defeats to take a joint lead in the medal round of the World Hockey Championships here.

The Czechoslovaks scored a 3-2 upset victory on Saturday over Canada, the preliminary-round leader. The Canadians won the teams' first game, 5-3, on April 22.

The Soviet Union was bolstered by superb goaltending from Artur Irbe as it trounced Sweden, 3-0, on Saturday to atone for its previous 3-1 loss.

The Canadians, with six victories

and a draw in their previous matches, awoke in the second period, firing 22 shots at Dominik Hasek.

But they scored only once, through Greg Adams, and Czechoslovakia reclaimed a two-goal lead five minutes later on a fine effort by Robert Holik.

In the final period Canada again narrowed the difference to one goal, Doug Lidster beating Hasek with a low shot with 10 minutes left.

The Soviets showed they may be hitting their best form at the right time after placing third in the round-robin standings.

Makarov tipped in a goal-mouth pass to open the scoring after five minutes of the second period.

The Swedes struggled to keep up after that. Khomutov intercepted a pass by Swedish defender Ulf Samuelsson at his own blue line and skated in alone to beat Rolf Ridderwall for the second goal.

Then Sergei Pryakin of the Calgary Flames, being used for the first time in place of the injured Evgeny Davydov, combined on a passing play with Dmitri Khristich, who beat Ridderwall for the final goal.

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## SIDELINES

## Napoli Clinches Italian Soccer Title

ROME (AP) — Napoli defeated Lazio of Rome, 1-0, on a goal by defender Marco Baroni in the sixth minute on Sunday to win the Italian soccer title for the second time.

The victory, Napoli's 21st on the year, lifts the team's final point total to 51, two points ahead of AC Milan, which pounded Bari, 4-0, Napoli needed only a tie to clinch the title. Diego Maradona, Napoli's Argentine captain, dazzled the sellout crowd in Naples with his show-stopping moves. Maradona led the team to its first league triumph in 1987.

Maradona set up Baroni for the game's only score, lofting a high, floating free kick from just outside the Lazio area that Baroni headed past goalie Valerio Fiori.

Sánchez Vicario Wins in Barcelona

BARCELONA (AP) — Arantxa Sánchez Vicario of Spain settled down after a shaky second-set start to defeat Isabel Cuetio of West Germany, 6-4, 6-2, on Sunday and win the Spanish Women's International Tennis Championships.

Sánchez Vicario, the top seed in the \$150,000 tournament, held serve throughout the first set but faltered early in the second, cooling back-to-back breaks to Cuetio, who had qualified for the final with an upset over Mary Jo Fernandez of the United States.

But Cuetio, who appeared to hurt her left thigh early in the second set, failed to hold her serve even once, and double-faulted at breakpoint to go down, 2-3. Sánchez Vicario then steadied her play, holding serve to go up, 4-2, then holding again to win the set and match.

Davis Takes Spanish Golf by a Stroke

MADRID (AP) — Rodger Davis of Australia shot a six-under-par 66 Sunday to win the Spanish Open golf tournament by a stroke after withstanding late challenges by Nick Faldo of England and Bernhard Langer of West Germany.

Davis, who finished second to Langer in the Madrid Open, finished with an 11-under 277 total. Faldo, the U.S. Masters champion, finished with 278 to share second place with Langer and Peter Fowler of Australia.

In Togocho, Japan, Noboru Sugai sank a three-foot par putt on the first playoff hole Sunday and beat Steve Fale of the United States in the Chunichi Crowns Golf Tournament.

'92 Olympics Hockey Dispute Settled

BERN (AP) — The International Ice Hockey Federation withdrew its boycott threat of the 1992 Olympics on Sunday after reaching an accord with the French organizers to expand the tournament and add playoffs.

"There are no problems, they are solved," said Juan Antonio Samaranch, president of the International Olympic Committee. Earlier Sunday, Samaranch met with Gunter Sabatzki, president of the hockey federation, as well as representatives of the French organizing committee.

"We have agreed to have a 16-day tournament with playoffs," said Gunter Sabatzki, president of the IIHF. "We also hope the organizers will build a new training facility." The federation had threatened to pull out of the Olympics if a controversy over facilities was not settled.

Goodwill Games Gesture to Lithuania

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## Post-Gretzky Oilers Rediscover Postseason Life

By Joe LaPointe

New York Times Service

For much of the last decade, the month of May in Edmonton has meant hockey games, and the last two rounds of the Stanley Cup playoffs.

When Wayne Gretzky played here through the 1980s, Edmonton reached the final round of the playoffs in four of five years.

When Gretzky was traded to Los Angeles last season, it took the players and the fans a year to get over the loss.

Last April, the Oilers were eliminated in the first round of the playoffs.

They've been vilified as the fellow who carved the greatest team in hockey," said Peter King, the Oilers' owner. "Unfortunately, in the sporting business, you've got to do it for the future."

But the Oilers have forged a style and an identity about Gretzky, and once again they will play into the fifth month of the year.

After defeating the Winnipeg Jets and the Los Angeles Kings in the first two rounds, the Oilers will take a seven-game winning streak into the opener of the Campbell Conference on Wednesday night against either the Chicago Blackhawks or the St. Louis Blues.

The Oilers have advanced to the final four with a roster of people with three types of experience.

There is a variety of veterans in their 30s who have played their entire careers with the Oilers; a group of players in their mid-20s who

are a mixture of home-grown talent and trade acquisitions, and a speedy freshman class, the majority of which began the season in Detroit Red Wing uniforms.

Much else is different from the 1988 Stanley Cup champion team.

A new star, Bill Ranford, has emerged in goal, replacing the old one, Grant Fuhr, who is injured.

Behind the bench, John Muckler is in his first year as coach after four seasons as a first lieutenant to Glen Sather, now general manager.

"We've made some changes," said Mark Messier, the captain. "More depth. More speed. More youth. More of everything."

Messier, 29, a strong candidate for the Hart Trophy as the National Hockey League's most valuable player, is an 11-year veteran who leads a nucleus of a half-dozen old hands who joined the team with Gretzky, before the glory years.

This season, Messier scored 45 goals and added 84 assists, his 129 points ranking second in the league behind Gretzky's 142.

Other elders include Kevin Lowe, a 31-year-old defenseman with the team since 1979; Glenn Anderson, a 29-year-old right wing who arrived in 1980; Jari Kurri, the sharpshooting right wing from Finland who is in his 10th season with the team and will turn 30 on May 18; Charlie Huddy, a 30-year-old defenseman also in his 10th year; and Randy Gregg, a 34-year-old defenseman in his ninth year.

Among the younger veterans of the middle group are Craig Simpson, a 23-year-old forward

acquired from Pittsburgh in 1987; Steve Smith, a 26-year-old defenseman who became a regular in 1988; Jeff Beukeboom, a 25-year-old defenseman who joined the team the following season; and Esa Tikkanen, a scrappy 25-year-old left wing from Finland who made his Oilers debut in the 1985 playoffs.

Starting in these playoffs have been Ranford, with a 2.72 goals-against average; Tikkanen, who has scored eight goals in 11 games and successfully shadowed the injury-weakened Gretzky in the four-game sweep of the Kings, and Lamb, who has five goals and eight assists in 11 games.

Another major boost has come from the new arrivals, including Joe Murphy, 22; Adam Graves, 22; and Petr Klima, 25.

All are forwards who were obtained early this season in the trade with Detroit that sent Jimmy Carson to the Red Wings.

Carson never felt comfortable in his one season with Edmonton as the man who replaced Gretzky after the deal with the Kings. He refused to play early this season, forcing a trade.

"That trade was monumentally important," said Simpson, who has eight goals and eight assists in 11 playoff games.

He said the young players "are full of fire and so excited to be a part of this team that it has made a world of difference."

Another youth with potential is Martin Gelinas, a 19-year-old rookie left wing obtained with Carson from Los Angeles. He has two goals so far in the playoffs.

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